



## 3 Less-Obvious Car Stocks to Buy

### Description

Earlier in March, Fool.ca contributor Karen Thomas [recommended](#) three auto-related stocks to buy based on the 3.2% uptick in February car sales.

Thomas's trio of auto parts makers included **Martinrea International Inc.**, **Linamar Corporation** ([TSX:LNR](#)), and **Magna International Inc.** Although I like all three stocks, my personal [preference](#) would be Guelph-based Linamar, which upped its quarterly dividend by 20%.

While these three stocks are obvious beneficiaries of healthy car sales, they're not the only ones investors can play. Here are three less-obvious car stocks to buy.

### Canadian Tire

It's hard to forget **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) is an auto-related stock when the word "tire" is in the middle of the corporate name. However, investors in recent years have seen the retailer grow into so much more. In 2016, non-Canadian Tire retail (Mark's, Sport Chek, gas) accounted for 42% of the \$11.5 billion in annual revenue. **CT Real Estate Investment Trust** ([TSX:CRT.UN](#)) and Canadian Tire Financial Services contributed an additional \$1.5 billion in revenue in the past year.

While Canadian Tire doesn't break out its automotive business from the other four categories (Living, Playing, Fixing, and Seasonal), my most recent estimate was approximately [\\$2 billion](#), which is a significant piece of its overall retail revenue.

"Our Automotive business is another example of how our product innovation is driving performance. Renewed assortments in terms of quality, breadth and depth and new products from our Simoniz and MotoMaster brands have positively affected both top line and margins," Canadian Tire's Q4 2016 report stated. "Some of the best data analytics and execution is coming out of our Automotive group and we are very optimistic about their future performance."

The best part about Canadian Tire's automotive business? It's brand agnostic. It doesn't matter who's winning the car sales showdown; it benefits from all brands.

## **Auto Canada**

The coast-to-coast owner of some of the most successful automobile dealers in the country, **AutoCanada Inc.** ([TSX:ACQ](#)) suffers from the Alberta flu. Out of its 55 dealerships, 24 are located in oil country. In 2016, Canadian auto sales increased 2.7%, and yet sales in Alberta and Saskatchewan declined 7.1% and 5.4%, respectively.

Unfortunately for AutoCanada, it owns just eight dealerships in Ontario, generating 7% of its annual revenue; yet Ontario's 2016 unit sales increased 6%. In 2017 and beyond, AutoCanada plans to expand into Ontario and elsewhere to provide revenue diversification beyond its Albertan core.

By the time it fills out its geographic lineup so that it's achieved better diversification, Alberta will have come around, leaving the automotive retailer in a much stronger position.

The one downside to AutoCanada — long-term debt was \$330.3 million at the end of December 2016. That's 56.9% of its \$580 million market cap. That's quite high. However, it generated more than \$40 million in free cash flow in 2016, providing it with plenty to pay its 1.9% dividend yield.

Aggressive investors ought to take a look.

## **Automotive Properties REIT**

So, I've already mentioned a retailer that fixes cars and trucks and sells parts to do-it-yourselfers as well as a publicly traded dealership group; now I'm suggesting you have a look at **Automotive Properties Real Estate Investment Trust** ([TSX:APR.UN](#)), a small-cap owner of car dealership real estate.

Currently yielding 7.3%, it owns more than 30 properties in Toronto, Vancouver, and other major Canadian cities with almost half its operating income from the GTA. Leases average 13.6 years and come with annual rent escalation clauses of 1.5% ensuring revenue growth.

What's the biggest downside?

The Dilawri Group owns 38% of the REIT and is also the biggest tenant, generating 93% of the cash net operating income; if Dilawri's business goes into the tank, the REIT goes right along with it.

Of the three stocks discussed here, Automotive Properties is listed third for a reason. If you understand REITs, you shouldn't have a problem owning it. But if you've never invested in a REIT, this shouldn't be your first.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:ACQ (AutoCanada Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:LNR (Linamar Corporation)

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## **Category**

1. Investing

## **Date**

2025/07/23

## **Date Created**

2017/03/28

## **Author**

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