Why it May Be Time to Buy AutoCanada Inc.

Description

Over the past two weeks, shares of **AutoCanada Inc.** (TSX:ACQ) have slipped from nearly $23.50 per share to under the $20 mark. While this price change may seem relatively minor, investors may want to take note of the opportunity currently up for grabs. Although it is not advisable to time the market, investors may be receiving a fantastic entry point at current levels.

The dividend yield is close to 2%, and shares are not far from their 52-week low of $19.06. Again, while this could be a fantastic buying opportunity, the challenge faced by investors is that the shares may sink into a leg downwards and set new 52-week lows. Let’s take a deeper look at the company.

Trying to consolidate Canada’s auto dealerships, AutoCanada currently owns and operates approximately 64 franchises and 56 dealerships across the country with the biggest number located in Alberta. Although things have not been so good in western Canada over the past two years, the company has remained profitable during the downturn in the oil sands.

What makes this company an interesting investment is the dividend yield, which is now approaches the 2% mark, while the rolling payout ratio is close to 32%. Clearly, investors are getting a sustainable dividend with the money retained continuing to generate additional profits. The larger upside potential of this company will come not in increased dividends, but in the form of increasing sales and (hopefully) significantly higher profits in the future.

The sale of vehicles is something that will fluctuate significantly throughout the economic cycle. With close to 40% of sales outlets located in Alberta, times have been tough over the past two years for AutoCanada. Investors must realize that wear and tear on a vehicle is completely normal, and after two years of muted sales, the company’s locations in Alberta may be ready to turn the corner and begin increasing sales at a much more rapid rate than usual.

Those looking to make an investment in this name need to consider the risk/reward profile very carefully. While cyclical securities can increase in value at a much more rapid rate than defensive stocks, the sword is double edged. AutoCanada shares fell form a high of approximately $90 in 2014 to a current price closer to $20. The dividend needed to be cut as sales fell in 2016. Although the company is still in acquisition mode, investors need to be concerned with same-store sales much more than top-line total revenue growth.

Looking at the 10-day and 50-day simple moving averages, shares have yet to find a clear trading range. With volatility as a big part of the picture, investors willing to take this risk may want to think deeply about the reward that is expected.

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