Vehicle Sales Are up This Year: Should You Buy AutoCanada Inc.?

Description

Vehicle sales have been up for most of this year, with April being the only exception thus far. With sales up 6.5% in June and 11.2% in May, Q2 could be a strong quarter for sellers of automobiles. Similarly, manufacturers of automotive parts have likely seen increases in demand as well. With no signs of slowing down, it might be a good time to get into automotive stocks.

AutoCanada Inc. (TSX:ACQ) may see a positive quarterly result due to increased auto sales. However, in Q1 new vehicle sales were flat, despite the positive industry news, as the mix of brands AutoCanada retails only grew by 3.3%. As a result, the company's Q1 sales were also down by over 4% from a year ago. The company said it plans to reduce its exposure to struggling brands through its acquisition strategy.

Despite the news of new vehicle sales being up, it looks like it might not be a big help to AutoCanada unless the sales mix has changed. In 2016, it was a similar story; the industry as a whole saw new vehicle sales up, but AutoCanada had declines. Prior to 2016, the company had seen increases in revenue of in each of the three preceding years.

The stock is currently trading at only 1.2 times its book value, and impairment losses in the company's third quarter have put its earnings per share in the negative. With poor growth and earnings, perhaps it is no surprise the stock has dropped over 18% in the past year.

AutoCanada seems like it should be a good investment as vehicle sales increase, but, unfortunately, the company's sales mix has not been representative of all automotive sales in the industry. One reason for this might be due to the company's heavy presence in Alberta; 24 of its 53 dealerships are located in that province. AutoCanada's dealerships are more heavily weighted in the western provinces, and its sales might reflect different tastes and preferences.

Despite the news of increasing sales, I would avoid this stock because of its poor mix and its heavy dependence on Alberta's economy for success. Another approach is to focus on companies that manufacture auto parts which might also be positively impacted by increasing vehicle sales.

Martinrea International Inc. (TSX:MRE) is a producer of a variety of different parts that are primarily used in the automotive industry. The company sells worldwide, but the vast majority (80%) of its sales come from North America, so Canadian and U.S. markets will have a significant impact on the company. Perhaps unsurprisingly, and in conjunction with improving vehicle sales, Matinrea's stock price has risen over 27% in the past six months.

The company has also seen its revenues rise in each of the last three years. Currently, the stock trades with a price-to-earnings multiple of under nine and a price-to-book value of only 1.1.

With low multiples, good growth, and an industry that is showing signs of increasing demand for vehicles, Martinrea might be a better stock to invest in than AutoCanada.

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djagielski