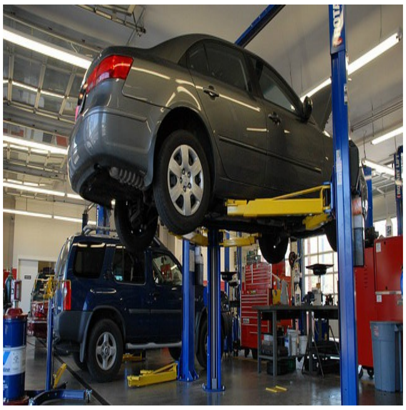

Why AutoCanada Inc. Soared 10.4% on Friday

Description

AutoCanada Inc. (TSX:ACQ), Canada's largest and only publicly traded multi-location automobile dealership group, announced its second-quarter earnings results before the market opened on Friday, and its stock responded by soaring 10.4% in the day's trading session. The stock still sits more than 25% below its 52-week high of $27.90 reached back in January, so let's take a closer look at the quarterly results, two important notes from its outlook, and the fundamentals of its stock to determine if this could be the start of a sustained rally higher.

The results that ignited the rally

Here's a quick breakdown of 10 of the most notable financial statistics from AutoCanada's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	Q2 2017	Q2 2016	Change
Revenue	$894.90 million	$842.26 million	6.3%
Gross profit	$143.82 million	$134.70 million	6.8%
Adjusted EBITDA	$30.75 million	$29.10 million	5.7%
Adjusted net earnings	$15.55 million	$15.52 million	0.2%
Adjusted diluted earnings per share (EPS)	$0.57	$0.57	0%
Adjusted free cash flow	$36.28 million	$21.63 million	67.7%
Total vehicles sold	18,490	17,425	6.1%
Number of service collision repair orders completed	228,872	227,446	0.6%
Number of dealerships at end of period	57	53	7.5%

Number of service bays at end of period	977	898	8.8%

Important notes from its outlook

In the outlook section of its press release, AutoCanada also made two important notes.

First, it noted that new vehicle sales are on track to set a record in Canada in 2017 as sales exceeded one million units for the first time ever in the first half of the year, and it expects a strong second half.

Second, it noted that it remains focused on expanding its geographic footprint while also expanding the number of brands it offers at its dealerships to maximize its sales going forward.

What should you do with AutoCanada's stock now?

It was a great quarter overall for AutoCanada, and its results crushed the consensus estimates of analysts polled by **Thomson Reuters**, which called for adjusted EPS of $0.48 on revenue of $823.3 million, so I think the large pop in its stock was warranted.

I also think this could be the start of a sustained rally higher, and that AutoCanada represents an attractive investment opportunity for the long term for three primary reasons.

First, it still trades at very attractive valuations. Even after the +10% rally on Friday, AutoCanada's stock trades at just 13.9 times fiscal 2017's estimated EPS of $1.49 and only 10.6 times fiscal 2018's estimated EPS of $1.95, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 32.2. These multiples are also very inexpensive given its long-term earnings-growth potential, including its estimated 30.9% growth in 2018.

Second, it has a good dividend. AutoCanada pays a quarterly dividend of $0.10 per share, representing $0.40 per share annually, which gives it a respectable 1.9% yield, and this will amplify your potential gains over the long term when reinvested.

Third, AutoCanada is the only publicly traded multi-location automobile dealership group in Canada, which means any investor seeking exposure to this part of the industry has no other choice but to buy AutoCanada's stock. I think this is very good for the long-term demand of the stock, especially since the industry is on pace for record sales in 2017, and this trend could very well carry over into 2018.

With all of the information provided above in mind, I think Foolish investors seeking exposure to the Canadian auto industry should strongly consider initiating long-term positions in AutoCanada today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/09/27
Date Created
2017/08/14
Author
jsolitro