



What Earnings of AutoCanada Inc. Say About Western Canada

Description

On Friday, shares of **AutoCanada Inc.** ([TSX:ACQ](#)) increased by more than 10% as the company reported quarterly earnings, which increased by 0.2% from the year earlier. Over the past 52 weeks, shares have traded in a range between \$17.46 and \$27.90. The rally continued on Monday; shares hit the \$22 mark, up another 6% from the year earlier. The company, which owns and operates car dealerships across the country with a very large presence in Alberta, has fallen out of favour over the past few years.

Given that the tough times faced in western Canada have gone on for more than two years, the company's surprise in top-line revenue growth may be signaling that the current situation in the economy is now the new norm. Several years ago, when the price of oil declined and Alberta went into a recession, many companies cut back on any expenses they could. The result was that many employees were out of work, and disposable income declined substantially.

For consumers who owned multiple vehicles, the decision to sell one vehicle, thus increasing the inventory of used cars available for sale, was very easy. Now, more than two years after the pullback in oil prices, the used car inventory may finally be dwindling, and the cars owned by many in the province are starting to break down. This past quarter, AutoCanada reported a major increase in revenues from the year earlier with top-line revenues increasing by more than 6% on a year-over-year basis. The increases did not stop there, however.

The gross margin increased from 16% to 16.1%, leading to a greater amount of profitability for every car sold. In this business, the increase is quite substantial. The operating income still increased considerably in spite of an increase in "other operating expenses." On a year-over-year basis, operating income increased from \$28.4 million to \$46.5 million, which is an excellent sign for shareholders.

For those looking at the bottom line, the second quarter of 2017 saw a major increase from the year earlier. Earnings per share (EPS) increased from \$0.52 to \$0.91 per share, but the bottom-line number does not tell the whole story (as is often the case). After backing out the one-time events, the bottom-line earnings have increased from \$15,523 million to \$15,547 million in total. For those wondering, over

the same period of time, the total number of shares outstanding increased from 27.35 million to 37.39 million, leading to an increase in not only the total, but also in the earnings on a per-share basis (albeit a very minor one).

With the wind finally shifting, the pick-up in revenues at AutoCanada may be signaling that things in Alberta have reached a new level of normal and consumers have now adapted. Moving forward, the pick-up in auto sales may tell of an improving western economy. Time will tell.

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Date

2025/07/23

Date Created

2017/08/17

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