2 Reasons to Focus on Automotive Stocks Right Now

Description

Motor vehicle and parts dealer retail has jumped 12.2% year over year as of August, a report by Statistics Canada revealed on October 20. The automotive industry has been the subject of some concern in North America due in particular to the expansion of consumer debt in auto loans that has continued since the 2007-2008 Financial Crisis.

Today, we are going to take a quick snapshot of the Canadian automotive industry and look at stocks for investors to keep on their radar moving forward.

New and used car sales were up in August

New car dealers experienced a 0.7% jump in retail sales in August, while used car dealers climbed 5.6%. New and used retail sales are up 12.9% and 18.4%, respectively, year over year.

AutoCanada Inc. (TSX:ACQ) is an Edmonton-based franchise automobile dealership group that operates over 50 dealerships. AutoCanada stock has increased 3.5% in 2017 and declined 4.2% year over year. The company released its second-quarter results on August 10. Revenue was up 6.3% to $894.9 million, and gross profit climbed 6.8% to $143.8 million. Interestingly, new vehicle retail sales were up 12.5% in the quarter, while used retail sales dropped 5%.

EBITDA jumped 61.4% to $43.7 million. The stock also offers a dividend of $0.10 per share, representing a dividend yield of 1.6% at offering. With impressive performance in new retail sales, it remains to be seen if the general trend shown by the Statistics Canada report will reflect in higher used retail sales for the company in the third quarter.

Automotive parts and accessories sales flat as NAFTA looms large

Automotive parts, accessories, and tire stores retail sales posted a 0.6% decline but have stillincreased 7.4% year over year. Shares of **Linamar Corporation** (TSX:LNR), the second-largestautomotive parts manufacturer in Canada, are up 35.5% in 2017 and 45% year over year. Aurora-based **Magna International Inc.** (TSX:MG)(NYSE:MGA) has increased 20.8% in 2017 and 31% yearover year.

The automotive industry was hit with a surprise in the fourth round of NAFTA negotiations, as the U.S. delegation rolled out its demands from its partners. The new administration has ambitions to boost U.S. automotive content from 62.5% to 85%. Mexican and Canadian officials were largely dismissive of this demand as a non-starter.

A coalition of auto industry leaders have backed an advertising campaign in an effort to dissuade voters, U.S. representatives, and the current administration from backing away from NAFTA. Recent reports have indicated that the Trump administration has seriously considered pulling out of the agreement. Negotiations have been extended into 2018, but recent reports indicated that the atmosphere had grown sour.

Buy or sell automotive companies?

With the uptick in new and used retail sales, I like AutoCanada to perform well in the final months of 2017. I have also expressed enthusiasm in the past for the long-term outlook at both Linamar and Magna International.

However, there is a real risk that NAFTA could be discontinued under the Trump administration. If this comes to pass, both companies will likely be subject to a period of volatility.

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2. TSX:ACQ (AutoCanada Inc.)
3. TSX:LNR (Linamar Corporation)
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