



## Why AutoCanada Inc. Rallied Over 5% Last Week

### Description

**AutoCanada Inc.** ([TSX:ACQ](#)), Canada's largest and only publicly traded multi-location automobile dealership group, watched its stock rise 5.49% last week thanks to a 9.16% surge on Friday following the release of its third-quarter earnings results after the market closed on Thursday. Let's break down the quarterly results and the fundamentals of its stock to determine if we should be long-term buyers today.

### The earnings results that ignited Friday's rally

Here's a quick breakdown of 12 of the most notable financial statistics from AutoCanada's three-month period ended September 30, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
New vehicle revenues	\$497.71 million	\$444.48 million	12.0%
Used vehicle revenues	\$192.47 million	\$179.58 million	7.2%
Parts, service, and collision repair revenues	\$104.82 million	\$92.59 million	9.7%
Finance, insurance, and other revenues	\$39.57 million	\$33.53 million	18.0%
Total revenue	\$834.57 million	\$753.18 million	10.8%
Gross profit	\$137.97 million	\$122.94 million	12.2%
Adjusted EBITDA	\$27.23 million	\$23.72 million	14.8%
Adjusted net earnings	\$13.58 million	\$10.33 million	31.5%
Adjusted diluted earnings per share (EPS)	\$0.50	\$0.38	31.6%
Adjusted free cash flow	\$23.30 million	\$27.77 million	(16.1%)
Total vehicles sold	17,132	15,955	7.4%

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Number of dealerships at end of period	57	53	7.5%
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### A positive outlook on the auto market

In the press release, AutoCanada also made very positive comments regarding the condition of the automotive market. Here's a quote from the release:

"The Canadian new vehicle market continues to outpace all previous years for sales. Nine months into the year, new vehicle sales have hit monthly records eight times. Total sales of 1.59 million vehicles at the end of September are 5.5% greater than 2016, the previous record year."

AutoCanada went on to state that the auto market has grown in every region of the country, with the west being "particularly strong," and this has been a major benefit for the company, because its business is heavily concentrated in the west. It also noted that it remains focused on expanding its geographic footprint and increasing the brands and range of vehicles it offers, both of which were the driving force behind its acquisition of its first Mazda dealership in October, which is the 23rd brand in its portfolio and is located in the Montreal region.

### Was Friday's rally warranted?

It was a fantastic quarter overall for AutoCanada, highlighted by double-digit percentage revenue, gross profit, adjusted EBITDA, adjusted net income, and adjusted EPS growth, and its positive outlook was icing on the cake, so I think the market responded correctly by sending its stock higher by over 9% on Friday.

### What should you do now?

AutoCanada's stock has rallied more than 25% [since late July](#) and more than 16% since I [last recommended it](#) in August following its second-quarter earnings release, and I think it still represents a very attractive investment opportunity for one fundamental reason in particular: it's still undervalued. AutoCanada's stock still trades at just 15.1 times fiscal 2017's estimated EPS of \$1.60 and a mere 12.5 times fiscal 2018's estimated EPS of \$1.93, both of which are very inexpensive given its current earnings-growth rate and its long-term earnings-growth potential.

With all of the information provided above in mind, I think Foolish investors seeking exposure to the automotive industry should consider making AutoCanada a long-term core holding.

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