# Review of My Top Stock for November: AutoCanada Inc.

## Description

My top stock for November was the automobile dealership group **AutoCanada Inc.** (TSX:ACQ). I focused on retail sales released by Statistics Canada on October 20, writing, “Seasonally adjusted new car retail sales were up 0.7% in August and 12.9% year over year while used car retail sales jumped 5.6% and 18.4% year over year. AutoCanada could be a worthy bet if these trends translate over to its third-quarter earnings.”



As we enter the final days of November, let’s take a look at how the company and its stock has fared.

AutoCanada released its third-quarter results after the November 9th trading session closed. Revenue rose 10.8% to $834.6 million, and gross profit jumped 12.2% to $138 million from the previous year.

New vehicle sales were up 9.4% to 12,014 in the quarter, accounting for 59.7% of total revenue. Used car sales rose 2.9% to 5,118 and made up 23.1% of total revenue. This is a great sign, as AutoCanada has been able to translate good retail trends for both new and used cars into its performance in this quarter and year to date.

AutoCanada benefited from the record year in vehicle sales the country is currently experiencing. Growth was particularly strong in the western provinces, where AutoCanada has a larger footprint in comparison to the rest of the country. In its earnings report, the company was pleased to reveal that its sales growth of 9.4% outpaced the national increase of 6.8% as of September 30.

AutoCanada stock surged 10% as trading opened following its third-quarter earnings release. Shares have climbed 4% in the month as of close on November 17. The automobile industry is about to set records in 2017, but could 2018 yield even better results?

**What is the verdict for 2018?**

Ongoing NAFTA negotiations have given the automobile industry reasons for concern. The U.S. delegation has demanded more American content in auto manufacturing, but Canada and Mexico appear unwilling to budge on this, along with a series of other demands. If NAFTA is ultimatelyscuttled, the automobile industry could see a significant disruption in the short term.

In its recent rate decision meeting, the central bank mentioned the record household and consumer debt held by Canadians. Record auto sales have also seen a dramatic rise in auto loan debt, prompting some to speculate that auto loans have generated a dangerous bubble.

Canadian and American buyers tended to finance automobiles on three- to five-year terms in the past. Now, more than 50% of buyers opt for “extended financing periods,” often as long as seven to eight years. The Financial Consumer Agency of Canada (FCAC) reported in 2016 that the average auto loan was 74 months.

Auto industry experts have argued that superior vehicle technologies have extended the life of new automobiles, which reduces the risk of longer financing for consumers. Buyers will likely continue to see low rates in 2018, as the Bank of Canada has struck a cautious tone for some of the reasons listed above.

As long as the industry continues to thrive on a flow of historically cheap credit, I like AutoCanada stock going forward.



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