AutoCanada Inc. Shares Rise 5% After Strong Results

Description

Last week I wrote an article about the state of **AutoCanada Inc.** (TSX:ACQ) and its shares just before the company reported its 2017 results.

As early indications suggested, the results look good.

Let's recall that with the shares trading at $21.58 at the time of writing today, the return on this stock has been nothing short of dismal. This level represents an over 70% drop from the highs of June 2014 and an almost 15% drop from the levels witnessed one year ago, leaving investors with one question: is this a great buy or a falling knife?

Well, it's been a falling knife for some time now, as each new low was followed by more lows.

However, the shares aren't incorporating much good news these days, and are therefore very attractively valued. It's a big upside for investors, as good news from the company will move the needle on this undervalued stock.

And investors listened to the good news — hence the rise in the stock price today.

Fourth-quarter results were strong, with revenue increasing a solid 16.5%, same-store revenue increasing 11.1%, and the Western provinces showing strong growth as well.

Remember that with a big concentration of revenue stemming from dealers in Western Canada, the company has certainly felt the effects of weak energy markets, as Canadians in the energy-driven economies have lost their jobs, experienced lower disposable income and difficult economic times.

However, the fourth quarter saw a rebound, as oil is making a comeback and continues to trade above $60 at the time of writing, which is driving increased signs of a recovery in AutoCanada's western markets.

Revenue in Alberta increased 9.7%, revenue in Manitoba increased 7.2%, revenue in Saskatchewan increased 6.6%, and revenue in British Columbia increased 15.4%.

This represents a significant recovery that's driven a 26% increase in free cash flow in the quarter.

Bottom line

While the macro environment remains positive thus far in 2018, the year 2017 saw new records for Canadian auto sales — a level of growth that's likely unsustainable.

With interest rates on the rise, auto loans (as well as mortgage loans) will become increasingly expensive, thus driving disposable income lower and increasing interest expense related to these two purchases, thereby putting downward pressure on them.

With AutoCanada trading at news lows and strong results (and still very much a consolidation story), with continued market fragmentation and the company’s ability to acquire dealerships and drive growth, we should see the stock perform well.

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Date
2025/09/28
Date Created
2018/03/19
Author
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