Vehicle Sales Are Off to a Hot Start in 2018: Should You Buy AutoCanada Inc.?

Description

Canadian automobile sales hit a record 2.04 million in 2017, dominated by an uptick in the light truck segment. The impressive performance in the light truck segment was mirrored in the United States. There were a number of potential headwinds heading into 2018 for the automobile sector, including rising interest rates and the uncertainty surrounding NAFTA.

In late February **Bank of Nova Scotia** forecasted a pullback of about 40,000 auto sales in 2018. Bank of Nova Scotia predicted that Ontario would be a drag on vehicle sales due to a lagging real estate market that would reduce the use of home equity loans to purchase new autos. It also projected that high levels of household debt and a weakening dollar would put the squeeze on consumers.

So far, automobile sales have beaten analyst expectations in 2018. DesRosiers Automotive Consultants released data that showed February was another record month for vehicle sales. The month saw a record 125,530 in vehicle sales, which beat the previous record of 123,033 in February 2017. Light trucks have once again propelled sales. Car sales were down 6% year over year, while light truck sales were up 5.6%. After a record number of sales in January, automobile sales are now up 3.8% from the same period in 2017.

AutoCanada Inc. (TSX:ACQ) is an Edmonton-based company that is engaged in the operation of franchised automobile dealerships. AutoCanada stock is down 8.8% in 2018 as of close on March 16. Shares have plunged 14.4% year over year in spite of its positive results spurred on by record sales in Canada. AutoCanada released its 2017 fourth-quarter and full-year results on March 15.

In the three months ending December 31, 2017, AutoCanada saw revenue rise 16.5% from Q4 2016 to $733.1 million. New vehicle sales rose 16.3% to 9,822 and used vehicle sales climbed 4.3% to 4,653. Parts, service, and collision repair also generated $107.2 million in revenue, which represented a 16.1% increase from the prior year. EBITDA rose 11.3% to $28.1 million in the quarter.

For the full year, AutoCanada saw revenue hit $3.1 billion, which represented a 7.3% increase from 2016. Sales of new vehicles were up 9.3% to 43,773, as new vehicle sales accounted for 58.9% of AutoCanada's total revenue and 25.3% of gross profit. Used vehicle sales fell 1% year over year to

19,379 and parts, service, and collision repair and finance and insurance were up 8.8% and 8.6% from 2016, respectively. EBITDA jumped 18.6% from 2016 to $111.8 million.

Leadership was confident in its brief 2018 outlook that recent results in Canada point to a better-than-expected upcoming year. The company also declared a quarterly dividend of $0.10 per share, representing a 1.9% dividend yield.

A Canadian Black Book survey recorded in December 2017 appeared to forecast a decline, as 51% of respondents claimed that they were likely to buy a new vehicle in the next 24 months compared to 62% in a late 2016 survey. Early results in 2018 indicate that we have not yet reached a peak, and that perhaps the decline will be more drawn out going forward. The Bank of Canada has hinted that it may ease up on interest rate hikes in 2018, which should maintain an attractive environment for consumers seeking credit.

AutoCanada may be set up for another impressive 2018, and the stock offers a solid dividend. Investors may be able to scoop it up for a bargain after a steep year-over-year drop.

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