

Auto Sales Fall in March: Is it Time to Bail on These 2 Stocks?

Description

Automobile sales got off to an impressive start in 2018, as January and February continued to [churn out record numbers](#). The best numbers were in the light truck segment, which represented a continuation of a trend seen in 2017, and one that is also present south of the border.

The hot start ran contrary to analyst expectations. Carlos Gomes, senior economist and auto industry specialist at **Bank of Nova Scotia**, recently projected that the run of five consecutive annual records for auto sales would come to an end in 2018. Gomes predicted that “slower job creation and weaker gains in household wealth” would generate sufficient headwinds to put a halt to another record for auto sales this year.

Canadian auto sales for March came in last week, and sales of cars and light trucks were down 0.6% from March 2017. The total number sold in March — 186,447 vehicles — were still historically quite high. Passenger car sales were down 12.4% from the prior year, and light trucks were up 5.2% year over year. In the first quarter, light truck sales made up for almost three quarters of vehicles sold.

The Canadian economy performed well in 2017, but record consumer debt and the threat of rising interest rates represented [possible headwinds](#) for the auto industry. The Bloomberg Nanos Canadian Confidence Index ended the month of March at 56.8, which represented its lowest points since January 2017. Almost one in three Canadians anticipate that the economy will weaken over the next six months.

The drop in consumer sentiment could be yet another red flag for the auto industry after the first quarter of 2018. Let's look at two stocks to be wary of going forward in light of this data.

Boyd Income Group Fund (TSX:BYD.UN)

Boyd is a Winnipeg-based auto body collision repair company that operates in Canada and the United States. Boyd stock has climbed 6.4% in 2018 as of close on April 6. In 2017, sales increased 13.1% to \$1.6 billion, and adjusted net earnings grew 11.8% to \$58.8 million. The company also added 105 new locations and acquired Assured Automotive.

Poorer economic conditions typically put a dent in auto body businesses. However, Boyd will receive a boost from U.S. tax reform, which was enacted in December 2017. It offers a modest dividend yield of 0.5%.

AutoCanada Inc. ([TSX:ACQ](#))

AutoCanada is an Edmonton-based company that operates franchised automobile dealerships in Canada. Shares of AutoCanada plunged 5.04% on April 6. This drove the stock into negative territory for 2018.

AutoCanada posted records for its business in 2017 in step with the broader industry. Revenue jumped 7.3% to \$3.1 billion, and sales of new vehicles were up 9.3% from 2016 to 43,773. A prolonged

slowdown would obviously have a negative impact on AutoCanada's outlook in the latter half of 2018. The stock offers a solid quarterly dividend of \$0.10 per share, representing a 1.7% dividend yield.

Plunging consumer confidence in Canada and a downtrend for vehicle sales should steer investors away from this stock in April.

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