By Missing Earnings, This Company Presents a Major Opportunity

Description

Last week, **AutoCanada Inc.** (TSX:ACQ) reported quarterly earnings that failed to meet expectations, and shares fell by more than 10% on the news. Although large movements in share prices at the time of earnings is nothing new to investors, it must be noted that many of these movements are only one-day aberrations that are corrected over a relatively short period of time.

In the case of AutoCanada, investors may be wise to purchase shares at the current price of approximately $18.50 for a number of reasons. To begin with, the company reported quarterly earnings of $0.18, which is a $0.05 increase for the same quarter one year ago. Out of this, the dividend paid to shareholders is no less than $0.10, which leads to a yield of more than 2.1%. In spite of this dividend not being the most attractive opportunity on the market today, it must be noted that this is not simply a dividend stock; it is a security that will provide returns in the form of both capital appreciation and income, as the Alberta economy improves little by little.

As investors have been able to observe, the local bank in Alberta, **Canadian Western Bank** (TSX:CWB) has already recovered alongside the price of oil. Shares of the local banking institution have increased from less than $25 to a current price of more than $34. Essentially, once the lending institutions recover, then the rest of the economy can follow suit, as the opportunities to borrow money improve.

AutoCanada is operating in a business that is cyclical enough that many consumers can delay the purchase of a new vehicle or the repair (or general maintenance) of an existing vehicle. To make the market more challenging, many will seek out a “deal” away from their dealership, as their vehicles fall off warranty.

As time moves forward and cars break down, however, the cycle will once again begin to repeat itself, as more consumers are tied into leases (or new purchases), which will bring them into the dealerships for maintenance. In many cases, the maintenance is included in the original purchase price.

The final factor driving this name forward may just be the recovery of oil prices. As oil heads higher, and many companies in Alberta hire workers to replace the ones that were laid off, the rationale is that the expenses that were put off will finally be undertaken. As AutoCanada is the most dominant player in the Canadian auto sector (especially in Alberta), investors stand to benefit from the oligopoly-like structure of this market, as many of the smaller competitors have become weaker during the most recent economic downturn.

Barring a major shift in the structure of the market, it is highly probable that investors will look back at this opportunity as one of the best times to purchase this security, as the outlook for the automobile sector remains extremely positive.

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