Where Investors Can Make Huge Gains in Alberta — Without Oil

Description

Over the past several weeks, a number of companies have reported earnings that have, for the most part, either met or exceeded expectations. The caveat is that investors have only witnessed rising share prices in the cases where company management has discussed the positive future growth prospects of the industry. These cases have not been numerous.

For one company, however, the market may be getting the valuation completely wrong. After **AutoCanada Inc.** (TSX:ACQ) reported positive quarterly earnings once again, shares fell drastically and now trade at less than $16.50 per share. At these levels, investors will receive a dividend yield of almost 2.5% with the potential for a large amount of capital appreciation. Over the past five years, shares have traded at a high in excess of $90 each.

Although investors have never purchased this name for the attractiveness of the dividend, it should be noted that the dividend-payout ratio is no more than 25% on an annual basis. By retaining close to 75% of earnings, the company has accumulated a net amount of book value in the amount of $5.36.

While this number may seem small to many, it is important to understand the history behind this name. In an effort to consolidate Canada's auto retail sector, AutoCanada made numerous acquisitions by extending additional shares to dealership owners. By creating an oligopoly-like market structure, the company has enjoyed substantially better pricing power and made more money for shareholders. The challenge that made this substantially more difficult along the was nothing more than a slowing Albertan economy.

In spite of a turnaround in Canada's oil-rich province, the second-most dealerships per province is currently in British Columbia and, as investors are well aware, consumers there are having challenges getting fuel into the province due to a provincial trade war with neighboring Alberta. In spite of this short-term challenge, investors should not lose hope.

When discussing the general economy in the province of Alberta, investors have already seen a turnaround, which has sent numerous oil companies higher and, most important of all, shares of **Canadian Western Bank** (TSX:CWB) to new highs as well. As is almost always the case when exiting a recession, once shares of the financial institutions (which provide lending) recover, it becomes much easier to raise capital and increase new loan originations. Alberta and the oil patch are no different.

At a price of $34 per share, Canadian Western Bank offers investors a dividend yield of almost 3% with the potential for capital appreciation and a dividend raise over the next year. Although the retail branch network is focused in one province, the bank has done a fantastic job at diversifying into other provinces by dealing directly with many companies seeking loans.

With the expectation of higher oil prices here to stay, it should come as no surprise to investors that properly valuing shares of AutoCanada should translate to a market price not far from $25.

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