



When Twice As Irrational Is Just Irrational – And a Fantastic Buy!

Description

Several weeks ago **AutoCanada Inc.** ([TSX:ACQ](#)) reported earnings that were no better than expected, with an [unfavorable](#) result for shareholders. Shares declined by close to 10% the day following the news, and as is always the case, many new investors became interested in the stock.

Given that the dividend yield is a sustainable \$0.10 per share per quarter, the lower share price has led to a higher dividend, which has made the stock more attractive to income investors. What makes this story even more interesting is the second leg down seen past week. On Wednesday, shares declined by 6.5% as investors seemed to have a herd mentality amidst another Trump tweet. Given that tariffs are starting to impact the auto industry, it's not surprising that shares of this company are once again declining.

The caveat is twofold. First, Canadians need to purchase a vehicle when their old car breaks down, which will need to be done in spite of a price tag that rises from \$25,000 to \$27,000. The end result is the same: a new car will be sold either way.

Second, as many inside the industry are already aware, the amount of profit that is made for each new vehicle sold is very little. Instead, it's the maintenance of older vehicles (and the repairs) that bring in a much greater amount of profit to these car dealerships than most investors realize. If you've ever been in a difficult spot, you know that a good mechanic is worth their weight in gold!

When we look behind the curtain, things start to look significantly better than we realize. Although AutoCanada Inc. owns a number of dealerships across the country and is expanding into the United States, the reality is that the province or state with the greatest number of locations is Alberta. It's by far the most important geographic location for the long-term success of the company.

Given the recent uptick in the price of oil, investors should not hesitate to deploy their capital into this name, as the past three years have been challenging for the oil-dependent province. In spite of a troubling relationship between Alberta and British Columbia, the long-term success of Western Canada is all but guaranteed. After generations of being considered second to Ontario and Quebec, there is no doubt that things will get resolved and the West will regain its position.

In addition, what could become a boom for the company is a pipeline construction that could bring in a lot of federal money. When many people work for fair wages, selling more vehicles is a distinct possibility, but only time will tell [how many](#).

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