2 Reasons to Steer Clear of AutoCanada Inc. (TSX:ACQ) in July

Description

AutoCanada Inc. (TSX:ACQ) has plunged 26.2% in 2018 as of close on July 4. Shares are down 12% year over year. The company expects to release its second-quarter results in August after what was a solid earnings report in the first quarter. However, broader trends should make investors think twice before stashing AutoCanada in their portfolios ahead of its Q2 earnings report.

Auto sales post fourth straight drop in June

Back in early June I'd discussed why the drop in auto sales was a concern going forward. This week we learned that auto sales declined in June, which represented the fourth straight drop. Sales still exceeded 200,000 in June, a high mark on average, but were down 1.6% year over year.

Passenger car sales were down 8% from the prior year to 61,153 units, while light truck sales rose 1.4% to 139,003. The light truck segment has powered sales in Canada and the United States in recent years, but this year this segment has failed to make up the difference in passenger car sales. It is still possible for auto sales to exceed the record mark set in 2017, but there are economic storm clouds on the horizon that could spell trouble for the industry.

The threat of tariffs cannot be ignored

Auto tariffs have emerged as a real threat following the surprise imposition of steel and aluminum tariffs in June. David Adams, president of the Global Automakers of Canada, has warned that the ongoing trade spat could lead to problems for the automobile industry.

"There are some significant headwinds," Adams said in a recent statement. "Not the least of which are the steel and aluminum tariffs imposed by the Trump administration and the possibility of 25% tariffs on vehicles imported from the United States from abroad." For Adams, the sales numbers in June actually represent a positive considering concerns over the economic climate.

Recent rhetoric from President Trump and his administration suggests that auto tariffs could come sooner rather than later. This would dramatic effects not only on the auto industry, but also on the global economy. The European Union has pledged that it will impose $300 billion in retaliatory tariffs if

President Trump moves forward on this pledge. With the United States already engaged with China, it could find itself in a multi-front trade war with no end in sight.

What about AutoCanada?

AutoCanada stock has been pummeled in recent months, but it has seen positive results in recent quarters. In the first quarter, same store revenue rose 4.6% to $562.1 million and gross profit increased 1% from the prior year to $95.5 million. Still, sales in the first quarter started to show evidence of the aforementioned broad slowdown.

It is simply too risky to bet on AutoCanada right now, even at its current price. Investors may want to re-evaluate in the fall as the Trump administration may move on auto tariffs before the crucial November midterms.

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