As the Threat of a Global Trade War Looms, This Stock Has Already Tanked: Time to Buy

Description

As the threat of tariffs are imposed on a number of products bought and sold between countries, investors are potentially facing a very different future, as many companies must make alternative plans about how to conduct business in a new era. The auto industry is no different: the threat of yet another $500 billion in tariffs is looming.

As the manufacturing of an automobile is a complicated process with many entities involved (some in Canada and others in the United States), the entire sector has already been hit pretty hard. Currently, shares of **AutoCanada Inc.** (TSX:ACQ) trade at a price of approximately $15 and offer investors a dividend yield of almost 2.7% — one that is starting to look more and more attractive as shares have declined from a 52-week high in excess of $25.

Although the manufacturing of vehicles may become more costly (which must be passed onto consumers in the form of higher prices), the reality is that investors have largely overreacted to the ramifications of a global trade war in many cases. For certain goods such as luxury alcohol or clothing, it's perfectly understandable that a shift in taste will occur, as brands such such as **Roots Corp.** (TSX:ROOT) will once again rise to become one of the most popular brands in a big way. In almost all cases, consumers will make the most rational choice given the array of options.

With the potential for higher sales prices on every new vehicle sold, Canadians may begin thinking very seriously about how they will treat their older vehicle and just how much regular maintenance they will undertake as the cost of new vehicles rise. The good news for investors is that the repair work done on older vehicles brings in a substantial amount of revenue for every dollar that is tied up in working capital. On the other hand, new cars offer some of the lowest returns on assets and returns on equity, as a substantial amount of money is used to maintain this part of the business. From an investor's point of view, shrinking the size of the balance sheet may just be the easiest road to profitability.

Currently, the balance sheet offers investors book value of almost $18.50 per share (after goodwill has been removed) and a dividend that represents no more than 20% of net income. With the used car segment able to sustain the dividend payments to shareholders, value may just be found at the current level. The question that investors must ask themselves, however, is just how long they are willing to wait for the inevitable to happen. Old cars will break down and people will buy new cars: the only question is when.

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