AutoCanada (TSX:ACQ) Stock Plunges 26% in 1 Day: Buy the Dip or Stay Away?

Description

AutoCanada Inc. (TSX:ACQ) stock plummeted 26.9% on Friday, August 10. This followed the release of its second-quarter results after trading closed the previous day. AutoCanada operates car dealerships across Canada, and the stock has been battered in 2018. Back in early July, I'd warned investors to steer clear of AutoCanada stock.

Shares of AutoCanada are now down 52% in 2018 so far. The article linked above discusses the impact that declining automobile sales and potential tariffs could have on the industry at large. Canadian auto sales fell for the fifth straight month in July this year.

A report from **Scotiabank** stated that vehicle sales fell 3% year over year in July. Scotiabank warned in the beginning of 2018 that auto sales would experience a slide after a record 2017. The drop in July was led by a 33% plunge in **Fiat-Chrysler** sales, which recorded the worst month since 2014. Without the worrying numbers from Fiat-Chrysler, sales were up a modest 0.8% from the prior year.

The potential imposition of auto tariffs from the Trump White House also represent a significant threat to AutoCanada and the Canadian auto industry at large. The Canadian Automotive Dealers Association (CADA) has warned that auto tariffs and subsequent retaliatory measures could cost over 100,000 jobs and add thousands more to the price of the average automobile.

AutoCanada leadership released some concerning statements in its second-quarter report. Results in the quarter "led to a comprehensive review of our organization, governance, and operating objectives," executive chairman Paul W. Antony said. "We are now addressing these deficiencies and expect to realize margin improvement from our actions in the coming quarters." The company entered agreements to sell two dealerships and established new criteria to push results at select locations.

In the second quarter, revenue fell 1.6% year over year to $880.6 million, and same-store revenue dropped 5.1% from Q2 2017. Chief financial officer Chris Burrows said that the divestiture of four GM dealerships and the weakness of the Fiat-Chrysler platform resulted in a negative impact of 15% on revenue in the second quarter.

New vehicle sales fell 6.9% from the prior year to 12,506, while used vehicle sales were up 18.8% to

6,013. Used vehicle sales grew to 22.6% of revenue compared to 20.4% in Q2 2017. EBITDA attributable to shareholders fell to $10.8 million compared to $43.7 million in the same period last year.

AutoCanada affirmed that the United States auto market had entered correction territory, and that the Canadian market was also positioned to enter a slowdown. It maintains that the Canadian outlook is overall more positive, citing lower ownership levels in the domestic market, but it also warned that rising interest rates would lag on performance.

All of these developments and internal statements should be red flags for prospective investors. AutoCanada offers a solid 3.7% dividend yield, but the company and the industry it belongs to are entering a tumultuous period that will likely extend into the next decade. You should steer clear.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/22
Date Created
2018/08/13
Author
aocallaghan