The Good and the Ugly for AutoCanada Inc. (TSX:ACQ) This Week

Description

AutoCanada (TSX:ACQ) stock fell 3.35% on October 4. Shares have dropped 43.9% in 2018 so far. To say it has been a rough year for AutoCanada would be an understatement. The company has wrestled with troubling trends in the broader auto market, while its internal financials have disappointed.

In the second quarter, AutoCanada reported that revenue fell 1.6% year over year to $880.6 million. New vehicle sales fell 6.9% from Q2 2017 to 12,506. Paul W. Antony, who was appointed as executive chairman, said that AutoCanada would respond to its poor quarter with "decisive" internal action. AutoCanada incurred a quarterly loss largely due to a $58.1 million impairment charge. Of that amount, $44 million was a write-down on AutoCanada's March acquisition of eight dealerships from Grossinger Auto Group in Illinois.

AutoCanada went on a hiring spree in July and August in hopes that it will dramatically improve its efficiency to avoid incidents like these in the future.

This week has produced a whirlwind of news for the Canadian auto industry that will likely have ramifications for AutoCanada going forward. Let's examine the good and the not-so-good for the company and the industry at large this week.

The good

On September 30, a tentative deal was reached between the United States and Canada that will maintain a trilateral agreement on the North American continent. News of the deal caused auto parts maker stocks to jump in response as the new deal will reportedly include an "accommodation" for Canada and Mexico that will exempt them from any future auto tariffs imposed by the U.S.

There were fears that the failure to reach a deal could bring on auto tariffs. This had the potential to severely disrupt the Canadian auto industry. Auto dealers would have sustained a huge blow to business in the near term. A deal being reached maintains the status quo, which can only be good news, considering how damaging the alternative scenario could have been.

The ugly

On October 2, DesRosiers Automotive Consultants released the monthly auto sales report for September 2018. New light vehicle sales dropped 7.4% in September compared to the prior year. This was the largest year-over-year drop since 2009. It is an indication that Canadian auto dealers could be entering a prolonged slow period. This would complicate AutoCanada's bid to bounce back after a difficult second quarter.

Sales fell by nearly 14,000 units to 173,000 passenger cars, which represented the lowest sales figures for September since 2014. DesRosiers hinted that trade tensions may have led to falling sales, but the decline appears to reflect a sustained trend that has been present since the early spring. This is now the seventh straight month of sales declines.

In its second-quarter results, AutoCanada provided a detailed outlook in which it forecast that Canadian and U.S. markets would struggle in the near term. Investors should not bet on a strong finish for auto sales in 2018.

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