Better Buy Right Now: AutoCanada Inc. (TSX:ACQ) or Air Canada (TSX:AC)?

Description

The automobile and airline industries have historically been vulnerable to shocks in the broader economy. The airline industry suffered major challenges at the height of the financial crisis, and many top companies flirted with catastrophe. The financial crisis had a major impact on the global automotive industry and was most sharply felt by American automotive manufacturing. Auto loans have ballooned in the recovery years, and strain on consumers is increasing as interest rates have started to rise.

Today, we are going to look at two stocks that could be impacted by building economic headwinds. Which stock should investors go with right now? Should they pass on both? Let's dive in.

AutoCanada (TSX:ACQ)

AutoCanada stock plunged 12.33% on November 14, breaking off a win streak that was kicked off in the previous week. The one-day rout eliminated what was a solid month-over-month performance for a stock that has struggled mightily in 2018. Shares were down 51% in 2018 as of close on November 14.

AutoCanada stock was hit hard after the company announced a dramatic internal reshuffling to improve profitability. The company was also negative in its outlook in Q2 2018, as it projected the Canadian automobile industry to experience turbulence in the coming quarters. Auto sales fell 1.9% year over year in the month of October across Canada, marking the seventh straight month of declines.

AutoCanada managed to post a solid third quarter in the face of broader weakness for Canadian auto sales. Revenue rose 3.9% year over year to $866.9 million, and new and used vehicle sales were up 3.8% and 24.8%, respectively. AutoCanada maintained its uncertain outlook in Q3 but forecast that the fragmented nature of the current market would open opportunities for acquisitions.

The board of directors also declared a quarterly dividend of $0.10 per share, representing a 3.6% yield.

Air Canada (TSX:AC)(TSX:AC.B)

Air Canada stock dropped 1.33% on November 14, but shares were up 9.5% month over month as of this writing. The stock suffered from a turbulent October until the released of its third-quarter results. Air Canada made the report public on October 31.

The company reported record system passenger revenues of $5.018 billion in the third quarter, which was up 11.2% from the prior year. Air Canada posted traffic growth of 7.5%, which drove this core number. However, like its peers, Air Canada is wrestling with rising fuel costs, which were offset by a very positive quarter. Oil and gas prices have taken a major hit in late October and early November due to high U.S. output and apprehension from OPEC on the prospect of re-introducing production cuts.

Air Canada increased its full-year 2018 free cash flow guidance to the range of $500-$600 million compared to the range of $350-500 million projected in the summer.

Which is the better buy today?

Air Canada has overstepped short-term headwinds, and the stock has increased 2.9% in 2018 as of close on November 14. If the rout in fuel prices continues, airliners could get a boost in the final weeks of 2018. AutoCanada, however, remains a risky hold considering the precarious state of the industry.

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Date
2025/09/17
Date Created
2018/11/17
Author
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