# Warning: Things Could Get Ugly for This Auto Stock in 2019

## Description

**AutoCanada** (TSX:ACQ) is an Edmonton-based company that operates car dealerships across Canada. Shares were down 51.8% year over year as of close on January 9. The company has faced internal and external challenges that have the potential to push the stock into single digits this year.

Last year, I'd warned investors on several occasions to steer clear of AutoCanada. One of the primary reasons for this bearish outlook was the performance of auto sales in Canada. Numbers began to slip in the beginning of 2018 and worsened year over year in the final months of last year.

DesRosiers Automotive Consultants said 114,289 vehicles were sold in December in Canada compared to 124,247 in the prior year. This represented the 10th straight month of declines in 2018. Passenger cars suffered a 12.1% drop in sales year over year and light trucks reported a 6.5% drop. Total light vehicle sales in 2018 came in at 1.985 million, below the record 2.039 million sold in 2017.

DesRosiers said that economists should expect a further 2-4% decline in 2019. The consultancy firm emphasized that these numbers were still positive when taking long-term performance into account. Light truck sales, which have also powered worsening sales in the United States, rose 0.6% in 2018. Passenger car sales fell 9.7% year over year.



A new report from **Scotiabank** on auto sales in December also painted a bleak picture. The report said that vehicle sales fell by 7.4% month over month in seasonally adjusted annualized terms. "We forecast Canadian auto sales to dip to 1.93 million units sold in 2019 amid a continuation of the Bank of Canada's tightening cycle and muted job gains with the economy sitting near full employment," the report concluded. Scotiabank also projects that U.S. vehicle sales will fall below 17 million in 2019. This would be the lowest total since 2014.

AutoCanada is expected to release its fourth-quarter results in March. In the third quarter, the company saw revenue rise 3.9% year over year to $866.9 million. New and used vehicle sales increased 3.8% and 24.8%, respectively, compared to the prior year. The board of directors endorsed a Go Forward Plan in late 2018, which included commitments to enhance AutoCanada's Finance and Insurance offerings at dealerships, the creation of a new specialty finance division, and the disposal of non-performing assets. AutoCanada will also introduce reforms to increase the sale of used vehicles at its locations across Canada.

The company forecast that it would be able to achieve materially better results due to its Go Forward Plan, even in the face of negative macro-economic factors. AutoCanada currently boasts a quarterly dividend of $0.10 per share, which represents a 3.6% yield. The stock last boasted an RSI of 54, indicating it is not oversold, even as it is trading only $3 from 52-week lows.

AutoCanada's internal reforms have yielded positive results in the third quarter, but broader weakness in the industry will continue to weigh on its performance in 2019.

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