Warning: Auto Sector Troubles Will Shake Up These Stocks

Description

In December, I'd recommended that investors steer clear of the auto sector in 2019. This recommendation came on the heels of an announcement by **General Motors** that it would pursue mass layoffs across North America. The layoffs were part of a broader cost-cutting campaign, but it resulted in U.S. and Canadian officials threatening to cut off subsidies going forward.

AutoCanada (TSX:ACQ) is an Edmonton-based company that operates car dealerships across Canada. Shares of AutoCanada have dropped 4% in 2019 as of early afternoon trading on February 12. The stock is down nearly 50% year over year.

In recent earnings releases, AutoCanada has warned of softening conditions in the Canadian auto market. The Canadian market has managed to show solid strength in recent years, at least relative to its U.S. counterpart, but consecutive years of record sales came to an end in 2018. Increased pressure on consumers due to higher rates was cited as one of several factors that led to the decline in activity.

The market research company J.D. Power released a report that showed 44% of Canadian consumers possess a vehicle to trade in when they are purchasing a new car. According to the report, over one-third of those trade-ins are an average of $7,051 in negative equity. This means that nearly 15% of new-car buyers are thousands of dollars in the red when buying a new vehicle.

AutoCanada is set to release its fourth-quarter and full-year results in March. Shares of AutoCanada are not discounted in February, as the stock had an RSI of 58 as of this writing. Auto dealers face a challenging environment heading into the next decade.

Canadian Tire (TSX:CTC.A) stock has climbed 3.3% in 2019 so far. In September 2018, I'd discussed the struggles for Canadian Tire stock. Canadian Tire stock has dropped 8% year over year.

Retail sales dropped 0.9% in November 2018 largely due to lower sales at gasoline stations and motor vehicle and parts dealers. Sales at motor vehicle and parts dealers fell 1.8%. This represented the first decline in four months. Lower gas prices were responsible for the decline in sales activity at the pump in November. Investors should expect this to carry over into the December report, as oil and gas prices were soft into the final weeks of 2018.

Canadian Tire is expected to release its fourth-quarter and full-year results for 2018 on Thursday. In the third quarter, Canadian Tire reported a 2.5% increase in consolidated comparable sales. Financial Services receivables reported impressive growth of 11.2%. The company also announced a 15.3% hike in its annual dividend to $4.15 per share. Today, this represents a 2.5% yield.

Canadian Tire stock last had an RSI of 46 as of this writing. This puts the stock in neutral territory ahead of its fourth-quarter earnings release. Investors should be skeptical as we reflect on a difficult final quarter for the sector in 2018.

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2. TSX:CTC.A (Canadian Tire Corporation, Limited)

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aocallaghan