TFSA Investors: Do You Have This 1 Money-Making Stock in Your Portfolio?

Description

It isn't every day that you see a stock with a high dividend yield that also offers the potential for capital gains.

Luckily for you, the company we will be analyzing today offers both! **AutoCanada** (TSX:ACQ) operates car dealerships in Canada that includes such brands as Chevrolet, Audi, BMW, **Fiat** and many more. Its current dividend yield is 5.01%, which means a $10,000 investment held to year-end results in passive income of $501!

Its revenues are primarily derived from the new-vehicle sales segment, but its spare-parts segment contributes the most to its operating profits. The company also generates revenue from financing.

Investors should look into buying shares of AutoCanada based on its acquisition of Grossinger Auto Group and its continued profitability.

Acquisition of Grossinger

Grossinger Auto Group is a 90 year-old family run business operating in Illinois. It specializes in new and used vehicles, and in 2017, it generated CAD $513 million in sales while representing 11 manufacturers.

The acquisition gave AutoCanada eight metro dealerships in Chicagoland (representing five different brands) and six luxury brands in an auto mall. The transaction exposes the company to Toyota, Honda, Lincoln and Volvo dealerships while marking its penetration into the United States market.

AutoCanada paid CAD $110 million for Grossinger, which will be financed through a credit facility and payments received through the company's sale of dealerships in Canada.

Continued profitability

The company took a $78 million net loss in fiscal 2018.

Now that we have that out of the way, let's focus on how this happened and why it's an anomaly.

First, the $78 million net loss occurred primarily because of a $95 million impairment charge compared to a recovery of $816,000 the prior year. This impairment charge is driven by goodwill at $48 million and seconded by intangible assets at $26 million.

This impairment charge seriously affected the bottom line, resulting in a net loss of $78 million in the fiscal year.

Assuming this amount is omitted, the company would have a pretax income of $18 million for an adjusted net income of $12 million given a 33% tax rate.

The company's net income exceeded $3 million in each of the past five fiscal years with a peak of $58 million in fiscal 2017 and a low of $3 million in the prior year.

With the adjusted net income, the company's net income is in line with previous years.

Summary

AutoCanada's acquisition of Grossinger was brilliant in two ways.

First, through the acquisition, AutoCanada penetrated the United States market for its first time under a brand name that has become synonymous with Illinois. Grossinger's 90-year history proves that it has an established client network, which will benefit AutoCanada as it finds synergy from the acquisition.

Second, this adds four reputable manufacturers to AutoCanada's profile, which includes Honda, Toyota, Volvo and Lincoln. By having a wide selection of brands, AutoCanada solidifies itself as an adept company worthy of customers' hard-earned money.

After adjusting for a one-time impairment charge, the company's net income in fiscal 2018 is $12 million. The company's continued profitability show investors that senior management is committed to growing the business and putting more money in the pockets of its investors.

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