2 Auto-Linked Stocks to Buy and Sell This Fall

Description

The Canadian auto sector has been confronted with several headwinds in 2019. It received some good news this past week over the tentative deal reached between **General Motors** and the United Auto Workers on October 16. However, it will not bring an immediate end to the strike by nearly 50,000 hourly workers south of the border.

Canadian auto sales dipped in September after a marginal uptick in August. Before August, year-over-year sales had registered declines for 17 straight months. Volumes at major auto parts manufacturers have also dropped in the year-over-year period.

Today, I want to look at two stocks that are linked to the auto sector. One is still on my radar as a buy-low candidate today, while the other should be avoided in late 2019.

Buy: BlackBerry

BlackBerry (TSX:BB)(NYSE:BB) has made the transition from a top hardware company into software. Its QNX operating system has granted BlackBerry a footprint in the fast-growing automotive vehicle market. However, the stock has been hit hard by turbulence in 2019.

Shares of BlackBerry have dropped 30.4% in 2019 as of close on October 17. The stock tumbled after it narrowed its revenue guidance following a disappointing second-quarter earnings release. However, I'm high on BlackBerry as it continues its push into the automotive sector. CEO John Chen recently pointed out that sales of automotive and transportation products account for roughly 20% of the company's revenue.

The stock had an RSI of 33 as of close on October 17, putting it just outside technically oversold territory. A 2019 report from Global Market Insights projects that the automotive software market will reach $52 billion by 2025, which would represent a CAGR of 18% between 2019 and 2025.

Sell: AutoCanada

AutoCanada (TSX:ACQ) is an Edmonton-based company that owns and operates automobile dealerships across Canada. Shares have plunged 25% in 2019 so far. In the summer of 2018, I'd warned investors to steer clear of AutoCanada, as auto sales were just starting their long stretch of year-over-year declines.

The company has put together solid earnings in the face of broader headwinds for automobile dealers. New vehicle sales rose 0.9% in the second quarter compared to a broader sales decrease of 5.5% across Canada, according to DesRosiers Automotive Consultants. This drove revenue up 7.4% from the prior year to $945.8 million. Total vehicles sold in the quarter increased 4.3% year over year to 19,353.

Shares boast a favourable price-to-earnings ratio of 5.4 and a price-to-book value of 0.6. The stock began October in technically oversold territory, but it has since climbed to an RSI of 52, putting it at a neutral level at the time of this writing. Consumer confidence showed improvement in Canada in the third quarter, but high debt levels remain a significant burden.

Current macro trends are still troubling for automobile dealers, which is why I'm not biting on AutoCanada's single-digit stock price in October.

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