



ALERT: Retire by 35 on This Auto Stock

Description

AutoCanada ([TSX:ACQ](#)), through subsidiaries, manages franchised automobile dealerships in Canada and the United States. The company offers several automotive products and services, including new and used vehicles, vehicle leasing, vehicle parts, vehicle maintenance and collision repair services, extended service contracts, vehicle protection products, and other after-market products.

The greatest growth potential lies in the company's [high margin financing](#) and insurance business. Vehicle purchases are made by the company's customers through third-party finance and insurance sources.

The company provides vehicles under the Chrysler, Dodge, Jeep, Ram, Alfa Romeo, Fiat, Chevrolet, GMC, Buick, Cadillac, Infiniti, Nissan, Hyundai, Subaru, Mitsubishi, Audi, Volkswagen, Kia, Mazda, Mercedes-Benz, BMW, MINI, and other brands.

AutoCanada is a fairly new company, incorporated in 2009 and the company's corporate headquarters is in Edmonton, Canada.

AutoCanada operates 68 dealerships representing 77 franchises in Canada and U.S. The company looks to [forge partnerships](#) with strategic dealers and has an arrangement with DealerMine Inc.

The company is extremely cheap, with a price-to-earnings ratio of 5.4, a price-to-book ratio of 0.61 and a market capitalization of 266 million. A big reason for the stock's undervaluation is the high leverage utilized by the company, as evidenced by a debt-to-equity ratio of 1.62, which is significantly higher than peers.

The company is currently loss-making and has been affected by the recent trade tensions. Performance metrics are below par with an operating margin of 1.19% and a return on equity of 12.25%.

The company's same-store metrics and unit growth in Canada were higher in Q2 2019 year over year, which demonstrated excellent progress in a tough economic environment. It's encouraging to note that

the company reduced its net debt by \$69.4 million in the quarter.

The decline was led by effective working capital management and a sale leaseback transaction for two dealership facilities. Management are pursuing de-risking the balance sheet, which should lead to a higher valuation.

In Canada, management continued to focus on pursuing several initiatives. Same-store new retail unit sales growth was 9.1% in comparison to a market decrease of 3.0% for brands represented by AutoCanada.

The company is looking to sell more used vehicles through retail sales rather than wholesaling as demonstrated by the used retail units to new retail units ratio, which increased to 0.72 in the quarter, from 0.67.

In the U.S., the company continued to see improvements by focusing on improving the expense structure, which included a reset of all vendor contracts and restructuring compensation towards performance-based rather than fixed arrangements.

Management is focused on building long-term shareholder value and recently closed two loss generating franchises. AutoCanada took a non-cash restructuring charge of \$13.4 million related to the closure of these two franchises, scheduled to occur in mid November.

The company posted strong results in Q2 2019 and grew revenue by 13.3% year over year. Despite weak performance metrics, this looks like a contrarian play and an opportunity to buy a good company facing temporary problems at a cheap valuation.

The stock should trade higher once trade tensions between the U.S. and China are resolved. Investors getting in at current prices have a large margin of safety.

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