



Why AutoCanada (TSX:ACQ) Stock Surged 30% in a Week

Description

AutoCanada ([TSX:ACQ](#)) is an Edmonton-based company that operates franchised automobile dealerships across Canada and in some parts of the United States. Its shares had climbed 30% week-over-week as of close on July 27. Today, I want to discuss how and why AutoCanada has managed to generate this kind of momentum as we move into the month of August.

Why I'd looked to avoid AutoCanada stock earlier this year

Back in June, I'd suggested that AutoCanada was a [stock to avoid](#) in this uncertain environment. The COVID-19 pandemic and subsequent lockdowns had wreaked havoc on a wide variety of businesses. Automobile dealerships rely on foot traffic and person-to-person interactions. It came as no surprise when auto sales plunged sharply in the months of March, April, and May.

The pandemic came at an unfortunate time for AutoCanada as the auto sectors had started to storm back to kick off 2020. Its recent momentum suggests that investors have renewed faith in this company and the sector at large.

How this stock and the auto sector came storming back

June auto sales were down 15% from the prior year in Canada, according to data released in early July. This was a promising step forward for the automotive sector, and an indication that we may be returning to some degree of normalcy following a 75% drop in April and a 50% drop in May.

It stands to reason that AutoCanada and its peers should see increased activity as the domestic economy continues to reopen.

The company released its first-quarter 2020 results on June 3. For the three-month period ending March 31, 2020, AutoCanada saw revenues fall 4.1% year-over-year to \$708.8 million. Meanwhile, Total vehicles sold declined 12.8% to 13,755.

Investors are likely to see a harsher pullback in Q2 2020 as AutoCanada posts its April and May numbers. Regardless, the company has been able to consistently outperform many of its peers over the past several quarters.

In its Q1 2020 results, management boasted that the company managed to outperform the broader market for the fifth consecutive quarter. Same store new retail unit sales dropped 16.9% compared to the total 18.7% market decrease.

Moreover, its F&I initiative has managed to boost gross profit per retail unit average to \$2,679. This represents a 16.5% increase from the prior year.

Should you buy AutoCanada stock today?

Earlier this month, I'd discussed why AutoCanada had managed to perform well in comparison to [struggling stocks](#) like **Cineplex**. Investors can expect to see AutoCanada's second quarter results in the late summer. Based on current trends, management expects that the impact of the COVID-19 pandemic will be "more moderate" than originally anticipated. This is good news going forward.

Shares of AutoCanada last possessed a favourable price-to-book value of 1.3. It discontinued its dividend payout in the face of this pandemic. In the previous article, I'd pointed out that AutoCanada was in technically overbought territory.

This is still the case, as it last had an RSI of 80. Value investors may want to continue to steer clear of AutoCanada, even as it feasts on some positive momentum in July.

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