TFSA Investors: 1 Turnaround Auto Stock That Could Rise Significantly

Description

AutoCanada (TSX:ACQ) is a leading North American multi-location automobile dealership group, currently operating 66 dealerships in eight Canadian provinces as well as a group of dealerships in the United States. In the most recent fiscal year, the company's dealerships processed approximately 750,000 service and collision repair orders.

The company offers a full range of parts, service, and collision repair services and facilitates the sale of third-party finance and insurance products, extended warranties, and replacement and aftermarket automotive products. AutoCanada's multi-location model of dealerships enables it to serve a diversified geographic customer base and helps it to enjoy advantages not available to single location dealerships.

Fast growth

The company has doubled the number of dealerships owned since 2013 through both acquisitions and new open point locations. AutoCanada owns some of the top-performing dealerships in Canada. The company works on maximizing the profit potential of every dealership and to generate additional long-term growth both organically and through strategic, accretive acquisitions.

There is a strong pipeline of potential acquisitions and AutoCanada reviews opportunities on an ongoing basis. The company takes a conservative approach to potential acquisitions, focusing on opportunities that are accretive, conservative to AutoCanada's balance sheet and allow for portfolio diversification or other strategic benefits to the company. AutoCanada's franchised automobile dealerships are operated as distinct profit centres in which the dealer principals are given significant autonomy within overall operating guidelines.

Significant synergies

AutoCanada generates revenues and gross profit from four inter-related business operations. These include new vehicle sales, used vehicle sales, parts, collision repair, and insurance. AutoCanada’s size and consolidated purchasing power provide both cost and revenue synergies.

Cost synergies include achieving lower prices for items such as insurance, advertising, benefit plans, software, information systems, car rentals and services used at AutoCanada’s dealerships. Revenue synergies include being a preferred provider for retail service and warranty contracts and earning higher commissions on finance and insurance activities.

Decentralized operations

AutoCanada’s organizational structure allows it to provide market specific responses to sales, service, marketing, and inventory requirements while benefiting from the resources provided by an experienced and knowledgeable head office executive team. The company’s model enables it to benchmark the success of AutoCanada’s dealership operations against each other and rapidly implement new and innovative ideas across the company’s dealership group.

Geographic diversification

AutoCanada’s diversified locations throughout Canada help to mitigate the potential effect of adverse economic conditions in any one region of Canada. Operating a number of franchised automobile dealerships allows it to share market information among the company’s dealerships selling the same brands and quickly identify any changes in consumer buying patterns.

Higher-margin businesses

While new vehicle sales are AutoCanada’s most significant source of revenue, the company focuses on higher-margin sources of revenue, which are the sale of used vehicles, parts, service and collision repair, and finance and insurance sales. AutoCanada derives substantial revenues and gross profits from fees and commissions earned on the sale of finance and insurance products, which produce higher margins than sales of new and used vehicles.

Overall, AutoCanada’s current market price could present a generational buying opportunity.

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nikhilwaterloo