



## Why AutoCanada (TSX:ACQ) Stock Fell 13% Today!

### Description

**AutoCanada** ([TSX:ACQ](#)) stock has had a spectacular run this year. It's up over 90%, despite the sell-off in the rest of the market and the slowdown in growth stocks. However, this morning, the stock dropped by double digits. Here's a closer look at why AutoCanada stock is plunging and what investors need to know about the road ahead.

### AutoCanada's resurrection

My Fool colleague Brian Paradza, CFA described AutoCanada as the [ultimate turnaround story](#). The business was failing until 2019. A painful restructuring and expansion into the U.S. allowed the company to rebound strongly. By early 2020, the company was reporting earnings that were far ahead of analyst expectations.

Beating expectations helped the stock soar 600% over the past year. That performance beats some noteworthy tech stocks. In fact, it's better than Bitcoin's performance against the U.S. dollar over the same period.

Analysts justified this outperformance by pointing to AutoCanada's growth strategy and relative undervaluation. The company is on an acquisition spree to consolidate Canada's fragmented auto dealership market. Much of Canada's auto dealership network is owned and operated as small family businesses. Consolidating the market with capital raised on public equity and debt created immense value for the company.

This quarter, management forecast sales of between \$960 and \$980 million. Considering its recent run, most investors must have expected AutoCanada to surpass this range. However, management disappointed investors yesterday.

### AutoCanada earnings

The company reported first-quarter earnings yesterday. Revenue was up 36.8% over the past year to \$969.8 million. That's precisely on target with management's guidance. Since investors were expecting a beat, the stock seems to be selling off in early morning trading.

AutoCanada stock is down 13% at the time of writing. The broader sell-off in growth stocks in North America today could be intensifying this plunge.

Concerns about higher interest rates could be another trigger. Although AutoCanada has reduced debt over the past year, debt is still 3.7 times larger than shareholder equity. If the cost of borrowing rises, while growth slows, that could dent AutoCanada's prospects.

## The road ahead

The latest earnings report could indicate that AutoCanada's strong rebound is moderating. Used and new cars sold at record prices throughout last year, while debt was cheaper than ever. Both these trends could reverse in 2021. Meanwhile, AutoCanada is no longer beating earnings, but merely meeting expectations.

That's probably why the stock is down today. However, the stock is still trading at a price-to-sales ratio of 0.25 and a forward price-to-earnings ratio of about 13.5. If it can tackle its debt and keep its acquisition spree going, it should perform relatively well in 2021, despite the headwinds.

## Bottom line

AutoCanada has had a fabulous run over the past year. Unsurprisingly, growth has now slowed down. The latest earnings report met expectations rather than surpassing them. Meanwhile, debt remains a concern.

Nevertheless, AutoCanada stock is undervalued and could be a contrarian bet for investors with an appetite for risk.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Yahoo CA

**Category**

1. Investing

**Date**

2025/09/11

**Date Created**

2021/05/06

**Author**

vraisinghani

default watermark

default watermark