The Best TFSA Stock for Value Investors

Description

While growth stocks had an incredible run last year, value stocks have clearly gained the upper hand this year. Undervalued, conventional stocks with low growth but positive earnings are performing better as the economic recovery gathers pace. That means it's an ideal time to add some value stocks to your Tax-Free Savings Account (TFSA).

AutoCanada (TSX:ACQ) is a top pick for your value-oriented TFSA stock portfolio. It has had an impressive run that started last year and is showing no signs of exhaustion. After a 200% plus spike in 2020, the stock is up 88% year to date and is currently flirting with record highs. The impressive run stems from the fact that the car dealerships are booming.

Supply-chain problems and a lack of computer chips have slowed down the production of new cars. But households have excess savings, which means demand for cars has never been higher. In 2021, a used car could be worth just as much as a new car. This paradoxical situation has boosted AutoCanada's profits.

Growth prospects

The company sells vehicles of 21 automobile brands, with six brands being the most sold brands in the country. In addition to 50 franchised dealerships in Canada, the company also operates 14 franchises in the U.S.

Canada has fewer car dealerships per capita than the U.S., but we buy just as many cars. That means there's more room for organic growth here too.

In addition to auto sales, AutoCanada also provides services such as vehicle leasing. It also arranges financing and insurance via third-party financial providers. These segments of the company have been growing rapidly ever since the lockdowns kicked in last year.

Improving financials

In the first quarter, AutoCanada posted a 36.8% increase in revenues to $969.8 million, in line with management guidance. For the second quarter, management is projecting revenues of between $960 and $980 million.

For the full year, sales are projected to grow 27% year over year to $4.23 billion and 5.2% in 2022. The company is also projected to bounce back from a net loss of $0.27 a share in 2020 to a profit of 3.18 by 2022.

Amid the 88% plus share price gain, the company is no longer cheap as it is trading with a price-to-earnings multiple of 23.8 and a price-to-book multiple of 3.8. However, it is a small price to pay considering the company's growth trajectory and long-term prospects.

Bottom line

The economic recovery has boosted the prospects for undervalued, conventional stocks. AutoParts Canada, for instance, has been a prime beneficiary of the car shortage. Record-high household savings and pent-up demand for automobiles have pushed the sale price of used cars beyond new ones. Meanwhile, demand for leasing and maintenance is also skyrocketing.

AutoParts' stock trades at a reasonable valuation and has plenty of room to further consolidate the North American market. If demand remains elevated, investors could be in for a windfall. That's why this TFSA stock deserves a spot on your watch list.

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Date
2025/06/30
Date Created
2021/07/29
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