Lamphier: One-cent miss drives down AutoCanada stock

BY GARY LAMPHIER, EDMONTON JOURNAL AUGUST 8, 2014

Tom Orysiuk, left, CFO of AutoCanada Inc. AutoCanada's CEO Patrick Priestner.
Photograph by: Megan Voss, Edmonton Journal

EDMONTON - What's a penny worth? For AutoCanada Inc., the answer is apparently $139 million in market value.

That's how much was erased from the company's market cap Friday, after AutoCanada posted second-quarter earnings that were a penny below Bay Street's consensus estimate.

AutoCanada reported final net earnings of $12.8 million or 59 cents a share for the quarter ended June 30. But after adjusting for non-cash based stock compensation, earnings were 61 cents a share — one cent shy of the consensus forecast.

No matter. By the close, the Edmonton-based auto dealership network's shares had tumbled $6.35 apiece to close at $70.60 on the Toronto Stock Exchange, reducing AutoCanada's market value to just over $1.54 billion.

The steep drop, which came on a day when all of the North American stock market indexes posted decent gains, made AutoCanada's shares the second-biggest decliner on the day.

Sadly, that's getting to be a familiar story for shareholders. Since the shares peaked at nearly $92 apiece in early June, they've lost nearly a quarter of their value, chopping $460 million from AutoCanada's market cap.

So what gives? Money manager Bruce Campbell, president of Kelowna-based StoneCastle Investment Management, says AutoCanada's growth story remains intact and its performance has been solid. In fact, he was buying shares while others were selling on Friday.

But he says the stock has been whacked by a variety of factors, including unconfirmed rumours that AutoCanada chief Patrick Priestner has sold some shares, and that big U.S. players like Penske Automotive Group and AutoNation Inc. may be mulling expansion into Canada.

Both U.S. auto dealership networks are significantly larger than AutoCanada, and could represent stiff competition for the company as it seeks to add more dealers to its ever-expanding network.

AutoCanada acquired seven dealers in the second quarter alone, boosting its quarterly revenues by nearly 20 per cent over the year-ago quarter to $465.3 million.

It has since added two more dealers in July, increasing the company's network to a total of 36 franchised auto dealerships in eight provinces. It plans to acquire between eight and 10 additional dealerships by May 31, 2015.

"You can't really point out anything (that's doing poorly) in the business from a fundamental standpoint," says Campbell. "There's been some talk about the stock's (lofty) valuation and whether they should be trading in this range. And if you look at when the stock peaked, shortly after that they did the biggest (equity) issue in their history, so it wouldn't surprise me if there isn't still a bit of digestion going on," he explains.

"Plus the overall markets have been a little bit sloppy, so if we had stronger markets, the magnitude of the recent drop in their share price might not have been as big as it has been."

Certainly, the abrupt change of direction hasn't deterred most analysts, who remain largely bullish. Most of the seven analysts who track the stock rate it a "buy" with a 12-month target price of $96, according to Thomson Reuters.

Yahoo Finance, which tracks the views of six AutoCanada analysts, says two rate the shares a "strong buy" while four others rate it a "buy," with a median 12-month target price of $94.

Clarus Securities analyst Neal Gilmer is even more bullish. After AutoCanada released its results Friday, he reiterated his previous "buy" recommendation on the shares with a 12-month-target price of $100 — nearly 43 per cent above Friday's close.

"We continue to believe AutoCanada's growth outlook is attractive in light of the acquisition opportunities in a highly fragmented market, increasing industry sales volumes and significant exposure to resource economies in Western Canada," Gilmer says in his latest report.

“In addition, Chrysler (AutoCanada’s flagship brand) continues to drive market share gains, and AutoCanada’s management team has a proven track record of operating dealerships in Canada.”

Gilmer says he expects AutoCanada to complete five more acquisitions this year, a further 10 deals in 2015 and eight more in 2016. Although Gilmer said second-quarter earnings were a bit lighter than some analysts had hoped, net earnings would have been closer to 68 cents a share if most of the deals hadn’t closed near the end of the period, reducing the impact on results.

Campbell says the current consensus mid-$90s target price for AutoCanada’s shares over the next 12 months look achievable to him.

“If we saw auto sales start to drop off, that would probably bring those numbers down a bit, but looking at the latest numbers they reported, everything was strong, even in terms of organic growth,” he says.

“We left a little bit of room today to buy some more shares, and if the stock pulls back we’ll probably add to (our position) for sure.”

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