SECTOR CAR SALES

Buckle up for a bumpy ride

The credit squeeze and poor wage growth have caught up with showrooms

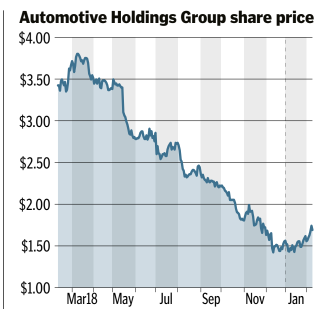
Around the world, car sales are declining. From the US to China, car lots are suffering from increasing unsold inventory. In China, for example, automobile sales fell 13.9% in November from a year earlier, the steepest such drop in more than six years and, for 2018, car sales recorded their first annual fall in two decades, declining 6%.

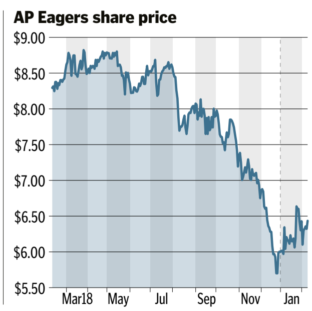
But it is in Australia that declines have been the steepest. Sales in 2018 fell 3%, masking an acceleration towards the end of the year when December sales were down 15% compared with December 2017. Some individual brands suffered enormously with Holden sales in 2018 down 32.7%, Ford down 11.6% and Mercedes down 13%. And the weakness has continued in 2019, with national sales down 7.4% in January.

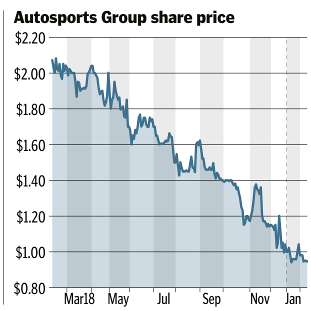
A bank credit squeeze, the drought, business anxiety surrounding the forthcoming federal election and a lack of wage growth all impacted sales.

But dealers don't only make money from sales and servicing of vehicles. Car financing and insurance play an important role in profitability and the Hayne royal commission's recommendation to abolish car retailers' exemption from the operation of the *National Consumer Credit Protection Act* may prove helpful from a market share perspective for the larger and more reputable networks.

Roger Montgomery is founder and CIO at the Montgomery Fund. For his book, Value.Able, *see rogermontgomery.com.*







❶ Automotive Holdings Group

ASX code AHG
Price $1.69
52wk ▲ $3.87
52wk ▼ $1.39
Mkt cap $577m
Dividend 16.3¢
Dividend yield 9.37%
PE ratio 17.8

■ **HOLD**

Weakening new car sales trends appear entrenched and the Sydney hailstorms and quarantine fumigation of imported vehicles for stink bugs has delayed delivery of tens of thousands of vehicles nationwide. The company remains significantly exposed to deteriorating retail, consumer and housing trends and last year its AGM trading update was weaker than expected, with 2018-19 guidance missing already reduced consensus expectations. The bleakness, however, is well known and therefore probably factored into the share price.

❷ AP Eagers

ASX code APE
Price $6.43
52wk ▲ $8.99
52wk ▼ $5.66
Mkt cap $1.2bn
Dividend 36.5¢
Dividend yield 5.78%
PE ratio 12

■ **HOLD**

AP Eagers is bucking the industry trend, increasing its profit guidance before tax in January by 4.5% to $133.7 million from $126 million-$130 million following a record December. Adjusting to regulatory changes and continued consumer weakness remain a concern but the company is perhaps best positioned to take advantage of any rout in the sector through consolidation.

❸ Autosports Group

ASX code ASG
Price 94.5¢
52wk ▲ $2.15
52wk ▼ 94¢
Mkt cap $191m
Dividend 9¢
Dividend yield 9.5%
PE ratio 7.3

■ **HOLD**

According to FactSet, 2019 forecast consensus earnings per share of 13 cents is 19% weaker than 2018. But with the share price having fallen 60% from $2.41 to 95 cents, a PE ratio of just 7.3 times suggests value is emerging, provided Australia avoids materially slower economic growth. The company's clean balance sheet should also position it well to consolidate the industry and grow by acquisition. However, there appears to be no sign of an end to the deteriorating macroeconomic conditions and there are few positive catalysts in the near term.

Prices and charts as at close of business, 8-Feb-19.