



Magna Shares Are In Overdrive

Description

Magna (TSX:MG,NYSE:MGA) shares rocketed out of the gate on Friday morning, touching a 52-week high of \$58 before settling back to a level below \$57 with about an hour and a half left in this week's trading.

The company's stronger than expected financial results were behind Friday's move. Pick an expected quarterly number and it seems like Magna beat it. Adjusted earnings of \$1.22 were ahead of the \$1.14 consensus. Sales were \$8 billion vs. \$7.7 billion expected, margins of 4.8% vs. 4.7% expected and the dividend increased 16% vs. 10% expected. Nicely done!

Magna is benefitting from the revival of the North American auto industry. Coinciding with the company's results were indications of strong gains in U.S. light vehicle sales for February. GM, Ford, Chrysler and Toyota announced sales gains of 7.2%, 9.3%, 4.1% and 4.3% respectively. Reasons for the improved sales were a combination of low interest rates and a return of available credit as financial companies loosen their purse strings.

Solid

There is really no better word to describe Magna at this time. With net cash on the balance sheet of about \$1.1 billion or \$4.72 per share, the company is incredibly well positioned to expand its global footprint. In addition, about \$1 billion of free cash flow was printed during 2012 indicating this war chest will continue to grow.

Magna's success has not been lost on the market as shares are up more than 50% from the beginning of 2012. However, valuation metrics indicate there might still be some gas left in the tank. The company trades at a price/sales multiple of 0.44 which is bang on its long-term (15 year) average. However, this multiple has peaked out in the 0.50 to 0.60 range in the past. Were Magna to trade up to 0.60 times sales, the shares could reach \$77 – 35% higher.

The Foolish Bottom Line

Magna's had a great run and is well positioned to continue its global expansion. However, the

company still operates in a cyclical industry and now that the stock has reached a long-term average valuation level, it's prudent to begin to get cautious about expectations for future gains. This is not a name to sit on and be greedy with because of the cyclical nature of its business. Having a game plan is an important component of being a Magna shareholder.

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Fool contributor Iain Butler owns shares of Magna. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

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