Which Canadian Auto Supplier is a Better Bet?

Description

Canada is home to some of the big names in the auto parts supply industry, all of which are currently doing quite well. However, the name that really catches my attention is **Magna** (TSX:MG,NYSE:MGA), the largest Canadian auto parts maker.

The company's impressive growth trajectory, superior results in troubled Europe and presence in key markets across the globe, scores a point above its peers **Linamar** (TSX:LNR) and **Martinrea** (TSX:MRE).

Solid quarter performance

Magna beat both revenue and earnings predictions in the first quarter, reporting earnings of $369 million [figures in U.S. dollars] or $1.57 per share on revenue of $8.36 billion. Revenue was up 9.1% and earnings per share was +7.5% over last year. According to Thomson Reuters, analysts were expecting earnings of $1.43 per share on revenue of $8.09 billion.

While Linamar and Martinrea also put up good numbers, their revenue growth has been much slower than Magna. The former increased its revenue by 1% to C$846.6 million driven by demand in its powertrain business. And the latter saw a 4.5% year-over-year growth to C$769.1 million on the back of higher sales in North America.

Revised guidance

In addition to superior past growth, Magna's recent guidance also helps set it apart. In March, the company predicted a range of $32 – $33.4 billion for its 2013 revenue. The company now anticipates a range of $32.6 – $34 billion.

Operating margins are also expected to exceed prior guidance. A mid-to-high 5% figure is what the company is now calling for. This compares to the earlier expectation of around 5%.

When a company predicts an incremental $600 million in revenue together with better margins within a short span of just two months, it's a clear indication that the going is really good.

The best part

Magna has done incredibly well in Europe at a time when the industry there is rather sick. Overall vehicle production in European was lower by 9% during the first three months of the year and the industry had posted negative growth for 18 consecutive months before rising slightly in April.

However, thanks to its strategic acquisitions, Magna was able to grow its revenue by 5% to $2.45 billion during the first quarter. In comparison, during the same period, Linamar saw a 2.9% dip in European revenue to C$57.4 million while Martinrea saw a much steeper 7.5% decline to C$141.8 million.

It is also noteworthy that Magna was able to increase its adjusted EBIT by 14.3% y-o-y due to its cost containment efforts. Adjusted EBIT was C$72 million compared to C$63 million in the first quarter of 2012.

It's a welcome relief for investors that Magna is not losing any money in Europe. In 2011 the company had lost about $22 million in Europe which it reversed in 2012 with an adjusted EBIT of $165 million. This year Magna is expecting even better financial performance although sales are likely to remain below last year's levels.

For the full year 2013, the company expects to generate around $9.3-$9.6 billion in sales from Europe compared to $12.7 billion last year.

Strength in Asian operations

Magna is a truly global company, its reach extending to 29 countries across the world.

It has recently launched new programs in China and Brazil which is driving sales in the company's Rest of World division. Core 'external production sales' grew by a solid 26% to $516 million.

In its Rest of World division Magna has been able to break even despite currency issues in Venezuela due to improved profitability of its Pacific operations.

China will continue to be a strong long-term growth driver given the fact that all of the big automakers including General Motors, Ford, Volkswagen, are investing heavily in this country to capitalize on growing demand.

Linamar and Martinrea are also trying to foray into the lucrative Asian markets but they have yet to gain the scale that Magna has in the region.

Magna has 41 manufacturing/assembly plants in Asia – 25 in China alone. It has just added one more body, chassis plant in Chongqing primarily to cater to Ford's plant in the region as well as Volkswagen's plant in Chengdu.

Linamar in comparison is opening its third plant in China although it's doing very well in terms of growing its sales in the region. In the first quarter, it grew automotive sales in Asia Pacific by 36.4% to

C$33.8 million. Meanwhile, Martinrea is just starting its first plant in China.

The Foolish Bottom Line
Magna is outperforming its peers and is well-poised to grow further. The company's solid performance in Europe comes as an added bonus. However, the stock is not cheap. So investors might wait for a pullback before initiating a position.

Magna is a great Canadian success story born out of humble beginnings. To learn of 3 more companies that started small and now dominate their respective industries, **click here** and we'll send you our special **FREE** report "**3 U.S. Stocks Every Canadian Should Own**" – **FREE!**

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The original version of this post was created by Fool contributor Eshna De.

Fool contributor Eshna De does not own shares of any of the companies mentioned at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)
4. TSX:MRE (Martinrea International Inc.)

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Date
2025/07/04
Date Created
2013/05/29
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