



Magna – So Hot Right Now

Description

Few companies in the Canadian market can match the roll that **Magna** (TSX:MG,NYSE:MGA) is on. Not only is the auto-part behemoth's stock on a tremendous tear, up 61% year-to-date, Magna just released second quarter results that absolutely tore the cover off the ball. That's a good thing for those of you not up on your baseball parlance.

Lot's to like

You name the metric and Magna knocked it out of the park. Second quarter revenue of \$8.96 billion handily beat consensus of \$8.56 billion and adjusted EPS of \$1.78 made mincemeat of the estimated \$1.64.

And even though the company bought back \$337 million of stock and spent more than \$200 million on capital expenditures during the quarter, net cash increased to \$915 million from \$864 million at the end of the last quarter. The balance sheet is strong on this one.

But what has Magna followers really hopped up is that the company's European division, aka the black sheep, posted its 6th consecutive quarterly profit. The EBIT of \$120 million is relatively small potatoes and the margin of 3.2% pales in comparison to the North American operating margin of 9.2%, however, the fact that this division isn't bleeding is helping to spur the stock higher today.

Well, there is one negative

The negative about all of this (for me at least) is that I [sold my Magna shares](#) about \$10 ago. This decision was justified by a valuation that was beginning to appear stretched in my mind. It's too early to tell if this might look like a better decision in 2-3 years, but as it stands, clearly I left some money on the table.

Just to check in on valuation however, the company's historic price/sales ratio is provided below.

[magna price sales](#) known

Source: Capital IQ

Over this period, Magna's average P/S multiple has been 0.37 and it has maxed out at 0.62. With today's move, the stock is now trading very close to this historical high indicating that if Magna's valuation wasn't stretched when I sold, it certainly is now.

The company is now guiding for 2013 revenues of \$33.3 to \$34.7 billion. If we call it \$34 billion, this still results in forward P/S ratio of 0.56, which is obviously at the high end.

Foolish takeaway

The auto industry is in a groove right now and Magna is benefitting big time. This is still a cyclical industry however and though the music is currently blaring, this won't always be so. Be mindful of how quickly the cycle can turn and remain vigilant in monitoring your Magna shares as today's glory could become tomorrow's blunder.

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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Fool contributor Iain Butler (sadly) does not own shares in any companies mentioned at this time. The Motley Fool does not own shares in any companies mentioned at this time.

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1. Investing

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

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