



After Hitting New Highs Last Week, Will Magna International Shares Continue to Soar in 2014?

Description

Magna International (TSX:MG, NYSE:MGA) is off to a roaring start this year – its shares hit an all-time high last Friday, tacking on 9% year to date. Interestingly, the auto-parts maker doesn't expect its top line to grow much this year, and its just-announced outlook for 2014 lagged Street estimates. So what's fueling the market's optimism?

Why is Magna cautious?

Magna expects to generate between \$33.8 billion and \$35.5 billion in sales this year. While the company is yet to announce numbers for financial year 2013, the outlook hints at a flattish top line year over year. That may sound surprising, given how auto sales in the U.S. hit a six-year high last year. Magna gets more than half of its sales from North America, and is the largest auto-parts supplier in the nation.

Well, the problem is that nearly 40% of Magna's total sales come from the European region. Naturally, any weakness in the market is enough to offset higher demand from North America. Now compare that with smaller peer **Martinrea's** ([TSX: MRE](#)) geographic sales mix – nearly 79% of its sales can be attributed to just the North American market — and you can easily guess why Martinrea [appears a stronger player](#) right now.

Though sales of new cars in Europe jumped 13% year over year in December, it cannot be coined as a turnaround just yet, especially since overall, 2013 turned out to be the *worst* year in nearly a decade for the European auto industry. Small wonder, then, that Magna remains cautious about the market.

The silver lining

The good news is that despite flattish sales, Magna expects its operating margin for 2014 to improve to “mid-6% range” from an expected 5.9% for 2013, thanks to its restructuring moves in Europe and expansion in Asia. Magna is pursuing a two-fold strategy in Europe — exiting unprofitable ventures while betting on upcoming new vehicle launches, including the **BMW** i3, **Ford** Transit, Mercedes Benz GLA, Porsche Macan, and Skoda Octavia.

Meanwhile, Magna is also strengthening its foothold in high-growth markets like China, India, and South America. Magna expects international markets to contribute 10% to its total sales by 2016, up three percentage points from the current level.

The Foolish bottom line

I wouldn't be surprised if Magna overshoots its own sales estimates this year. The U.S. auto market is running strong, and going by the December figures, Europe may have started improving as well. Even if sales don't grow much, improving operating profit should help the company boost its bottom line. With Magna projecting similar capital expenditure this year as last year's (roughly \$1.4 billion), that would mean higher net profits, and thus greater free cash flow.

That's great news for investors, especially since the company already boasts solid financials – Magna shouldered just about \$96 million in long-term debt and held \$1.1 billion in cash as of September, 30, 2013. So investors can continue to expect greater dividends and share repurchases from the company this year. Simply put, Magna shouldn't disappoint investors in 2014.

CATEGORY

1. Investing

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