



3 Reasons This Auto Parts Stock Will Keep Soaring Higher

Description

Magna International ([TSX:MG](#))([NYSE:MGA](#)) shares took off this week, hitting an all-time high. The excitement spilled over from last week after the company delivered solid fourth-quarter numbers that trampled Street estimates by a good margin.

Analysts were quick to applaud the auto-parts supplier's performance, with both JPMorgan and Goldman Sachs upgrading their rating on the stock to "neutral" post results. But a neutral rating means that the analyst firms expect Magna stock to perform in line with the market over the next six to 12 months. Does that mean the stock has run its course, and that there's not much upside left? Let's dig deeper.

1. European surprise

Magna's fourth quarter was a good one, with revenue and net income climbing 14% and 28%, respectively. Breaking it down more, Asia emerged as the strongest market, with sales surging 29% during the quarter. While a 13% jump in sales from North America was no surprise, given the recent uptick in auto sales in the region, Europe stole the show with a 17% jump in sales. And that could be the key to Magna's growth in the near future.

Magna gets nearly 40% sales from the European region. With 2013 turning out to be the *worst* year in nearly a decade for the European auto industry, investors feared the worst for Magna. But the company rode out the storm, thanks to its restructuring and cost-cutting initiatives, while availing itself of the opportunities brought forward by new launches from key customers, such as the Mercedes-Benz A-Class, Skoda Rapid, and **Ford** Kuga.

In fact, Europe is turning out to be a strong market for nearly every auto-parts supplier. For instance, **Martinrea International** ([TSX:MRE](#)) reported a 9% jump in sales from Europe for the nine months ended September 30, 2013. Likewise, **Linamar** ([TSX:LNR](#)) credited robust demand backed by several new vehicle launches in Europe as one of the primary reasons for the 12% increase in its Q4 revenue year over year.

2. Moving into the future

Neither Martinrea nor Linamar enjoy the economies of scale, or the innovation capabilities that Magna does. Magna has expanded its reach to 29 countries. Its top six customers include **General Motors**, Ford, Fiat-Chrysler, Volkswagen, BMW, and Daimler. Earlier this year, Magna also received the Volvo Cars Quality Excellence Award.

From an innovation viewpoint, Magna is about to unveil its green car concept at the currently running Geneva Motor Show. The MILA Blue runs on natural gas and is built using lightweight material like aluminum. Magna defines MILA as its “innovation and technology brand.” Magna’s carbon-fiber composite parts are also on display at the ongoing JEC Europe Composites Show in France.

Clearly, Magna has its eyes on future trends, and is making sure it is well positioned to exploit any opportunity that comes its way, especially as global fuel economy and efficiency standards become more stringent. The company is also focusing on key international auto markets. Magna projects its sales from China and India to nearly double and increase sixfold, respectively, by 2016. Since Magna has negligible debt on its books, it can easily leverage to fund its expansion plans.

3. More money coming your way

While Magna’s growth story looks compelling, another reason why investors bid the shares up was higher dividends. Magna increased its Q4 dividend by 19% to \$0.38 a share, which is also its highest-ever dividend. The good news is that the company aims to return greater capital to shareholders over the next two years. Investors can remain hopeful, especially since Magna has no debt worries, generated more than \$1 billion in free cash flow over the past twelve months, and held \$1.5 billion as cash in hand as of December 31, 2013.

Foolish bottom line

Magna is a complete package with great customer base, solid innovation leadership, strong financials, and in-place growth catalysts. It could be among the best ways to play the upturn in the auto industry, especially for the long haul.

CATEGORY

1. Investing

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