



The Best Way to Profit From the Automobile Renaissance

Description

It's no secret that the automobile industry is experiencing a worldwide expansion. Companies from **Toyota** to **Ford** are reporting record sales worldwide. Whether it's in the United States or China, consumers want new cars!

While a booming sector is great for us investors, a car company is a very complex machine to analyse and is exposed to a myriad of complex specific business risks. A recent example is the case of **General Motors'** massive recall.

How can Canadian investors take part in this upsurge of demand for new cars while minimizing our exposure to the risks associated with this industry?

The nearest thing to a car manufacturer in Canada

We Canadians may not have a multi-national car company, but we have the very next best thing — an original equipment manufacturer (OEM) in **Magna International** ([TSX: MG](#))([NYSE: MGA](#)).

This OEM is on a tear this past year, growing over 62% — three times the **S&P/TSX 60** — and all signs indicate the growth is not over yet. Unlike a car company, Magna can do business with all of the car manufacturers, essentially giving us direct exposure to the sector while downplaying the hazard of a General Motors-type recall.

Strong shareholder-oriented culture

On the last conference call, management announced that they had repurchased a total of 2.7 million shares and started out the process to increase the total buyback to 20 million from the current 12 million. That's an increase of 66%! The dividend — while nothing to write about at a 1.41% yield — is up 29% in the last five years.

The balance sheet to back its objectives

With net cash — that is, the cash left after all of the long-term debt is paid — of \$1.1 billion the company has a great deal of room to leverage its capital structure to increase shareholder value.

Management and the board of directors are putting their money where their mouth is by filing for an offering of \$2 billion in debt, which should be used to fund the share buyback program unless a major acquisition is announced.

A booming sector + a low levered balance sheet = shareholder gold!

With a sector in full bull mode, Magna International has some bright days ahead of itself and with management determined to increase shareholder's wealth, you want to be in the passenger seat of this vehicle.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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