Martinrea vs. Magna: Which One Should You Buy?

Description

The Canadian auto and auto-parts industry has had a stellar performance since the start of the year. Those who had foresight during the 2008 recession to invest in stocks like **Linamar** (TSX: LNR) and **Magna International** (TSX: MG)(NYSE: MGA), would now be enjoying hefty returns. In the last two years, Linamar has gained over 200%. And since 2009, Magna is up over a whopping 800%.

But there's still hope for those investors who didn't jump on the bandwagon and take advantage of such million-dollar opportunities. Entering into a sector when valuations are high is ill-advised but when it comes to the auto-parts industry, there's one good way to enter the game: **Martinrea International** (TSX: MRE).

The share price of this Ontario-based company has indeed bounced around, given its internal disputes and complications. However, if you take a step back and look at the wider picture, although Martinrea has collapsed 45% from its August highs to December lows, its share price is now up 44% since the start of the year. Moreover, in the past two years, the company has advanced 39%.

Magna vs. Martinrea

Magna International is undoubtedly a world-class company and is considered a leader in electrical engine technology. With 315 manufacturing operations and 82 product development, engineering and sales centres in 29 countries, Magna is currently North America's largest auto-parts manufacturer. The company expects good EPS growth thanks to both industry trends and emerging market advancements.

However, as the company's valuations hit new highs, I don't foresee the next few quarters to be as strong as they currently are. This is because the demand for autos and auto parts in North America seems to be at its peak and will likely hit the brakes on Magna's earnings. The stock currently trades around the $116 mark, while its 52-week high is not far ahead at $118.24 a share. This makes Magna rather expensive.

I think the more economical investing opportunity is Martinrea. It is the second largest North American metal-former in terms of revenue and manufactures a range of auto parts such as engine blocks and fuel tanks. However, the company is experiencing internal issues related to corporate governance, which has affected its share price.

The problems started last September when Nat Rea, a former director and executive of Martinrea, filed a lawsuit against the company accusing the board of corruption and breach of fiduciary duties. In April, he called for the replacement of the board. Martinrea countersued Rea, aggravating the situation.

On June 11, 2014, Rea's holding company, Rea Holding Corp(RHC), withdrew its nomination of five individuals for Martinrea's board. RHC owns 0.1% of Martinrea (100,000 shares). Then on June 20, Martinrea announced the election of directors and the appointment of a new director, Sandra Pupatello, at its annual general meeting.

Martinrea currently trades around $12, which is also around the company's 52-week high. Its share price has undeniably been compromised given the disputes but it remains very inexpensive compared to its peers.

The bottom line is that it is a good, well-run company with strong valuations, and investors should take advantage of the cheap valuation.

If you want the highest quality and are willing to pay the price for it, then go ahead and buy Magna. But if you are willing to take a little risk (headline risks and controversy) and are looking for a bargain, Martinrea would be your best bet.

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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