



Magna International Inc. Posts Record Q2 Sales, Will the Stock Follow Suit?

Description

It's been quite the Q2 earnings season for **Magna International Inc.** ([TSX: MG](#))([NYSE: MGA](#)). The company has posted record sales, and its stock has climbed to a new all-time high of \$122.21. The company has grown to include 317 manufacturing facilities, and 83 product development, engineering, and sales centers spread over 29 countries. This growth is helping Magna to leverage its core North American and European operations against its Chinese and South American expansions.

Where does this leave investors? Sales are up and the stock is up, but is this new high merely the ceiling, or a new floor to jump in on?

Record second-quarter results

Thanks primarily to a 3% increase in North American sales and a 2% sales increase in Europe over the quarter, total revenue managed to hit a new record of \$9.46 billion. This is up from the \$8.9 billion in revenue Magna posted in Q2 2013. Gross margin also crept up to 13.8% in Q2, up from 13%. This is a modest increase that was soured by some inflation issues in South America, combined with lower sales in emerging markets.

In terms of the bottom line, adjusted EBIT totaled \$710 million, up drastically from \$547 million during the same period last year. Net income also saw a great gain of 23% compared to last year, pulling in \$510 million, up from \$415 million in Q2 2013. When broken down into earnings per share, the increase was up 30%, ending the quarter at \$2.32 per share, up from \$1.78 per share.

A drain on the company's record quarter was felt throughout its Chinese and South American operations, which saw a decrease of 33% during the quarter.

Its 2014 guidance gets retooled

Thanks to this banner quarter, Magna has revised its 2014 guidance, with 2014 sales projected to come in between \$35.6 billion and \$37.3 billion. This is up from its previous guidance of \$34.9 billion to \$36.6 billion; operating margins are also believed to be in the high 6% range as well. The company is anticipating strong demand at home in North America and over in Europe to continue to drive sales.

If this past July here in Canada is any indication, it could be a very good year for Magna. July auto sales in Canada hit a new record of 176,995 cars and light trucks. This brings the year-to-date total to 1.08 million. Some analysts are expecting total Canadian sales in 2014 to reach 1.93 million compared to the May prediction of 1.89 million.

Its six-month results are just as impressive

It hasn't just been a good Q2 for Magna, as its six-month sales are sitting at \$18.4 billion, up from \$17.3 billion. North America contributed \$9.1 billion of sales and Europe contributed \$5.2 billion. However, its "rest of world" segment, which is mostly composed of its South American operations, is down 30% with only \$320 million in sales so far this year.

As mentioned before, the stock closed at a new 52-week and all-time high of \$122.61 on Friday, but the most recent analyst price targets have only been sitting around \$116.00. While this is up from the pre-earnings average price target of \$91.40, this leaves investors with a dilemma: While the dividend is modest, with an annual payout of \$1.66 and a yield of 1.35%, the short-term gains look limited.

Magna has shown itself to be a long-term cornerstone for many investors. However, the price to enter may be a little rich at the moment. This earnings report should serve as a boost in confidence for current investors, but the high price and low target might intimidate new investors.

CATEGORY

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