



Why Magna International Inc. Deserves a Spot in Your Portfolio

Description

Magna International Inc. ([TSX: MG](#))([NYSE: MGA](#)) reported its 2014 second-quarter earnings last Friday, and the numbers echoed a healthy business that is on solid footing.

Although the stock is up 40% year-to-date, here is why I still like this investment.

Cars, cars, and more cars

Consumers keep on buying new cars; you just have to look at the results of the main car manufacturers to see that automobiles are being sold in record quantities in the U.S. and China. Even Europe is beginning to stabilize and who knows, perhaps sooner than later growth will come back to the old continent.

Magna International is an OEM — original equipment manufacturer — so the more new cars that are being sold, the more equipment the company produces. The numbers do not lie, with consolidated sales up 7% during the second quarter and gross margin coming in at 13.8%.

EBIT was also positive with year-over-year growth in each segment and higher EBIT to sales percentage. Consolidated EBIT margin came in at \$653 million or 6.9% of sales compared to 5.6% during the second quarter of 2013.

All in all, this was a good quarter with increased gross margin signifying better leverage of operations and good cost control.

A strong balance sheet

Net cash — the cash left after all of the long-term debt is paid — during the second quarter came in at \$658 million, a decrease of around \$400 million year-over-year, but still a strong demonstration of the liquidity the company has in the short term. It is no surprise that the net cash would be lower considering management's commitment to utilizing the strength of its balance sheet to increase shareholder value by issuing additional debt and lowering its cash balance to more reasonable levels.

Throughout Q2 the company did just that, issuing additional debt and repurchasing 1.5 million shares to move closer to its goal of repurchasing 7.6 million shares by the end of the year.

I like this move and feel it is a good sign that management is working in the interest of the shareholders.

Show me the money

Let's turn to the cash flow of the company. Again, the numbers are encouraging. During Q2, cash flow from operations came in at \$600 million, while capital expenditures were only \$384 million. This amounts to free cash flow from operations of \$216 million for only one quarter. Just like the rest of the operating metrics, free cash flow is up sequentially solidifying the premise that the future is bright for Magna's shareholders.

Increasing sales and better operating leverage will help increase the free cash flow the company will generate in the future. This is good news for both profits and share buybacks.

Bottom line

Magna is up 40% so far this year, and while this is not a cheap stock right now, such strong operating metrics and a booming sector warrant a rising stock price. Investors might be tempted to wait for a drop before buying, but an anecdote from legendary investor Warren Buffett might be relevant here.

Back in the '80s Buffett passed on investing in **Wal-Mart Stores, Inc.** ([NYSE: WMT](#)) because of a minuscule uptick in the stock price. That mistake today is worth \$10 billion. Magna might be up 40% so far this year, but in 10 years the current price might be the bargain of the decade.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. NYSE:WMT (Wal-Mart Stores Inc.)
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