



Does Magna International Inc. Belong in Your Portfolio?

Description

As a foremost international automotive supplier, **Magna International Inc.** ([TSX: MG](#))([NYSE: MGA](#)) is certainly dependent on a robust Canadian and global economy for growth. Magna's Q2 results show the company is capitalizing on modest increased vehicle production in North America and Europe.

Here are the pros and cons of investing in Magna International.

Why buy?

1. Decentralized operations

Arranged by geographic area in each of its product spheres, Magna's manufacturing divisions operate as independent profit centres. The company promotes this decentralized model for administrative efficiency and also so it can be more reactive to customer needs and changes within specific regions.

2. Growth in global markets

Magna is placing an emphasis on non-traditional markets where it sees the best opportunities for significant growth.

Magna is growing in China, South America, Eastern Europe and India. In Shenyang, China, Magna has opened a Magna Steyr engineering facility. It opened a powertrain plant in Tianjin, as well as an electronics production line in Zhangjiagang. Furthermore, it has opened new Magna plants in Serbia and Turkey.

3. Acquisition strategy

One component of Magna's growth strategy is acquisitions. Company CEO Don Walker indicated that Magna was still seeking acquisitions to drive growth. The company is looking to make acquisitions in Asia where it sees market growth happening.

4. Product innovations

Magna is ready to produce the first all-thermoplastic, fully recyclable liftgate module for the 2014 Nissan Rogue in North America. With Ford, Magna has revealed a multi-material lightweight vehicle structure concept. It employs advanced material solutions to attain close to 25% weight reduction in the vehicle body, versus the current production vehicle.

5. Earnings improvement across all segments

For Q2 2014, Magna had improved adjusted earnings before interest and taxes in each of its segments. The company reported higher sales and adjusted EBIT of 10.5% for Q2 for North America. In Europe, it reported its 10th consecutive quarter of improved year-over-year adjusted EBIT (\$125 million). In Asia, Magna reported adjusted EBIT of \$42 million or 8.6%.

Why to avoid

1. Lack of diversification

Most of Magna's sales are to a handful of customers: **General Motors Company**, Fiat-Chrysler, BMW, **Ford Motor Company**, Volkswagen and Daimler. Therefore, downturns in the fortunes of one or more of these companies could substantially impact Magna's revenues and profits. Subsequently, Magna is working to diversify its customer base as a hedge against being dependent on too few customers.

2. The need to consistently develop state-of-the-art products

Magna continually focuses its resources on innovation and technology to remain viable in an industry replete with competition. It must continue to invest significant funds to develop enhanced products and manufacturing processes to remain competitive. This requires major capital outlays so it does not lag behind competitors in this area. Magna devoted \$1.4 billion to its business in 2013. This included outlays for fixed assets, investments and other assets.

The bottom line

Magna's strength is its wide-ranging operations (316 manufacturing operations, 84 product development, engineering and sales centres) around the world. Moreover, it pays out to investors. Last year, the company distributed \$1.3 billion in cash to shareholders and Magna's dividend rate is \$1.52 so it's a blue-chip income stock worthy of your consideration.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
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