



2 Big Reasons Magna International Inc. Will Outperform the TSX In 2015

Description

As oil company shares and the TSX declined nearly 10% since mid-November, **Magna International Inc.** ([TSX: MG](#))([NYSE: MGA](#)) shareholders have been quietly celebrating — their shares not only didn't decline with the overall market, but in fact rose.

They may have not been surprised however, as over the past five years, Magna shares have increased an enormous 370% on the back of a reviving American auto industry, combined with exceptional leadership from Magna CEO Don Walker.

Here are two big reasons why all the cards are lined up for Magna once again in 2015.

The macro picture for Magna is looking excellent in 2015

As one of world's largest automobile parts manufacturers, Magna depends on the highly cyclical automotive industry. After surviving the automotive industry crisis in 2008-2009, where North American auto sales dropped over 50%, and Magna saw its net income decline from \$663 million in 2007 to \$71 million in 2008, the company has been able to more than double its revenues from its 2009 lows.

Due to the cyclical nature of the automotive industry, and the fact the current expansion portion of the cycle certainly will not last forever, Magna may not be the best choice for a long-term hold. However, many analysts are estimating there are still another two or three years left in this auto cycle, with 2015 looking to be excellent, giving Magna the macroeconomic conditions it needs to continue earnings and share price growth.

U.S. retail auto sales are expected to reach a record high in 2015, with sales estimated to be 13.83 million, ahead of the 13.8 million previous record in 2004. This is thanks to improving American economic performance, coupled with low-interest rates, and growing demand for fuel-efficient vehicles with greater safety and electronic features. Established producers like Magna are well positioned to benefit.

In addition to retail sales, total U.S. auto sales (which include sales of vehicles to industrial and government customers), are expected to grow as well. Total sales for 2014 are expected to be 16.4

million in 2014, and expected to grow to 17.4 million by 2017. Growth in America will be matched by global growth, with sales in China expected to grow from 23.3 million in 2014 to 24.9 in 2015.

Current vehicles on the road have an average age of 11.4 years, and that is expected to rise to 11.7 by 2019. Demand for both auto parts and new vehicles is expected to be strong. These conditions give Magna several more years to continue its bull run, and the recent slide in oil prices should further boost these trends.

Magna is a fundamentally solid, undervalued business

A strong economic environment may not necessarily translate into share price gains if a company is severely overvalued or poorly managed. Neither is true for Magna.

Magna has a global customer base, with strong revenue diversification. Only half of its revenue comes from North America. This diversification provides stability to earnings and reduces risk.

Financially, Magna has been increasing its gross profit margin and earnings per share consistently for the past several years as the company has been able to realize productivity and efficiency improvements. In addition, Magna has an exceptional balance sheet, with only \$102 million of long-term debt (for a company with \$1.8 in annual net income), and \$1.5 billion of cash on its balance sheet.

The large cash balance and low-debt is a result of Magna's excellent free cash flow, and Magna intends to use its large cash balance to either buy back shares, or make an acquisition, both of which will benefit earnings per share and share price.

With a low price-to-earnings ratio of 12.5, and an anticipated 15% long term growth rate, Magna has a low price-to-earnings growth ratio of 0.83, which indicates an undervalued company.

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1. NYSE:MGA (Magna International Inc.)
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