



Magna International Inc.: Should You Buy, Sell, or Hold This Stock?

Description

Magna International Inc.'s ([TSX:MG](#))([NYSE:MGA](#)) stock has had an impressive five years, soaring almost 300% as the auto parts maker and contract vehicle manufacturer's business improved greatly as the global economy recovered from the last recession.

But, whenever a stock takes such a bull run skeptics start to wonder when the good times will come to an end. Last year, JD Power & Associates predicted that retail auto sales in the U.S. will climb to a record high in 2015, hitting 13.83 million. Total U.S. industry auto sales, including the sale of fleet vehicles, will take the figure to 17 million. Robust vehicle sales are good news for Magna International, and suggest that the company will see more upside, but Magna recently forecast lower than expected 2015 revenues.

Company's revenue expectations

Magna International is expecting revenues in 2015 would be lower than analysts' estimates. Magna is expecting that total revenue will fall in the range of US\$34.4 billion to US\$36.1 billion in 2015, short of analysts' average estimate of US\$37.65 billion according to **Thomson Reuters** I/B/E/S, but does this mean that Magna's good times are coming to an end?

We have been here before

At the beginning of 2014, Magna International also reported sales expectations that came in below analyst estimates, saying its total 2014 sales would be US\$33.8 billion to US\$35.5 billion, lagging the analysts' average estimate of US\$35.8 billion, according to Thomson Reuters I/B/E/S. The company's stock still managed to stage a solid performance in 2014, advancing about 20%, and I think it will this year as well.

Analysts estimates compiled by Capital IQ show that on average, analysts expect that in one year the stock will hit US\$120.11. The stock recently traded at US\$93.50. This shows that analysts still see the potential for significant upside in the stock, 28.5% over the next year, above the performance that the company staged in 2014. Undoubtedly, part of the reason why such upside is expected in the stock is the forecast for robust auto sales in 2015, but there is some reason to believe that the auto bull run is

running out of steam.

So should you buy, sell, or hold?

With 2015 forecast to be a record year for auto sales, it makes little sense to abandon the stock. With analysts forecasting a 28.5% return over the next year, there is still the opportunity to make profits from this company. If you own Magna stock, it is worth holding for awhile longer. If you don't own the stock, it could still be worth considering a purchase for the potential of making a larger than 28% return over the next year.

Even for investors who are long-term minded, Magna International could make an excellent investment. Sure, the stock will suffer when the auto industry eventually enters a cyclical downturn, but over the long term, Magna has proven itself as a solid performer. In fact, over the past 10 years the company's stock has appreciated by 142%. Even with fluctuating business conditions, shareholders who have held Magna stock for 10 years, a time period that includes the last recession, have still made an average annual return of over 14% on their investment.

CATEGORY

1. Investing

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