



## Does Magna International Inc.'s Stock Still Have Room to Run After its Recent Rally?

### Description

**Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), one of the world's leading manufacturers and distributors of automotive products, announced better-than-expected fourth-quarter earnings before the market opened on February 25, and its stock has responded by soaring over 6% in the trading sessions since. Let's take a closer look at the quarterly results and the company's outlook in fiscal 2015 to determine if this could be the start of a sustained rally higher.

### Breaking down the better-than-expected results

Here's a summary of Magna's fourth-quarter earnings compared to what analysts had projected and its results in the same period a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	\$2.44	\$2.26	\$2.03
Revenue	\$9.40 billion	\$9.12 billion	\$9.17 billion

Source: *Financial Times*

Magna's earnings per share increased 20.2% and its revenue increased 2.4% compared to the fourth quarter of fiscal 2013. The company's strong earnings per share growth can be attributed to its net income increasing 11.1% to \$509 million, which was helped by costs of goods sold increasing just 2.1% to \$8.07 billion and depreciation and amortization decreasing 20.4% to \$226 million. Its slight increase in revenue can be attributed to vehicle production volumes increasing 5.2% to 17.02 million units in North America and 3.8% to 20.09 million units in Europe.

Here's a quick breakdown of 10 other notable statistics from the report compared to the year-ago period:

1. External Production revenues increased 1.9% to \$7.69 billion
2. Tooling, Engineering, & Other revenues increased 17.2% to \$986 million

3. Complete Vehicle Assembly revenues decreased 9% to \$721 million
4. Complete Vehicle Assembly volumes decreased 10.2% to 32,965 units
5. Adjusted earnings before interest and taxes (EBIT) increased 17.3% to \$712 million
6. Cash provided by operating activities decreased 20.7% to \$999 million
7. Free cash flow decreased 58.7% to \$329 million
8. Ended the quarter with \$1.25 billion in cash and cash equivalents, a decrease of 12.7% from the beginning of the quarter
9. Approved a two-for-one stock split, which will be implemented by way of a stock dividend, and this will take place on March 25 to shareholders of record at the close of business on March 11
10. Announced a 15.8% increase to its quarterly dividend to \$0.44 per share (\$0.22 per share after the two-for-one stock split)

Magna also provided its updated outlook on fiscal 2015, calling for the following performance:

- Light vehicle production of 17.4 million units in North America
- Light vehicle production of 20.4 million units in Europe
- Total production revenues in the range of \$28.2 billion-\$29.5 billion
- Complete Vehicle Assembly revenues in the range of \$2.2 billion-\$2.5 billion
- Total revenues in the range of \$33.1 billion-\$34.8 billion

### Is there still room for Magna International to run?

Magna International is one of the world's leading manufacturers and distributors of automotive products, and increased demand for its products and services led it to a very strong fourth-quarter performance. Its stock responded accordingly by rising over 6%.

Even after the large post-earnings pop in Magna's stock, I think it represents an attractive long-term investment opportunity, because it still trades at favourable valuations. Its stock trades at just 15.7 times fiscal 2014's earnings per share of \$8.69 and only 14 times fiscal 2015's estimated earnings per share of \$9.70, both of which are inexpensive compared to its long-term growth potential.

In addition, Magna now pays an annual dividend of \$1.76 per share, which gives its stock a 1.3% yield at today's levels, and this will provide additional returns to investors going forward.

With all of the information above in mind, I think the post-earnings pop in Magna International's stock is only the beginning of a sustained rally. Foolish investors should take a closer look and consider beginning to scale into long-term positions today.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

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**Author**

jsolitro

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