



## Is There Time to Buy Magna International Inc. Before the Stock Split and Dividend Increase?

### Description

As oil continues to remain under \$50 per barrel and the loonie stays around the \$0.80 mark against the U.S. dollar, many industries will continue to suffer. However, for others, such as **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), low oil prices and a low dollar is a perfect economic storm. Automotive sales have already begun to rise year-over-year, and the weak currency will give Magna negotiating room against its competitors.

Does this mean that Magna has maxed out its stock's potential, or are investors in line for a hefty payday in the near future?

### 2014 production

Revenues in Q4 2014 rose to \$9.39 billion from \$9.17 billion, despite a 9% decrease in complete vehicle assembly sales. Adjusted EBIT climbed to \$712 million from \$607 million, while net income rose to \$509 million (\$2.44 per share) from \$458 million (\$2.03 per share).

During 2014, revenues increased to \$36.6 billion from \$34.8 billion, this time due to a 8% increase in complete vehicle sales. In terms of profits, Adjusted EBIT totaled \$2.63 billion, up from \$2.06 billion, and net income was \$1.88 billion (\$8.69 per share) and \$1.56 billion (\$6.76 per share).

### Dividends and stock splits

Thanks to these results, Magna declared that it would be increasing its quarterly dividend by record rate of 16%, bringing the quarterly dividend to \$0.44 per share. This dividend will be paid out of March 27 to all shareholders on record by March 13.

Magna has also announced that it would be instituting a two-for-one stock split on March 25 to shareholders on record by March 11. This will lower the boosted quarterly dividend to \$0.22 per share after the two-for-one stock split takes effect. Over the next week and a half, Magna should see its trading volumes rise, as investors react to the 2014 results and the opportunity to load up on stock before the split and dividend payout.

Should investors buy now and sell in April, or hold on for the long term?

### **The electric apple**

Over the past few weeks, rumours have begun to emerge that a joint partnership between Magna and **Apple Inc.** could be in the works. The two companies could join together to develop Apple's electric car, currently called the "Titan," instead of the more likely iCar. Analysts believe that Apple could generate up to \$50 billion in revenues from the project. However, production may not begin until 2020.

Thanks to a reported visit by Apple representatives to Magna's assembly plant in Graz, Austria, rumours continue to persist. For the most part, Magna has been rather coy about the situation, but does claim that "they do have the capabilities to produce such a vehicle."

### **Short-term future**

While 2014 saw increased production for Magna, the company is being less optimistic for 2015, as Magna has lowered projected revenues twice already this year. In January it lowered projected revenues from \$36.1 billion to \$34.4 billion, and in February it lowered its projections again to \$33.1 billion. Magna is hoping that these lower projections for 2015 could be offset by increased projections in its Chinese operations leading up to 2017. Currently, Magna generates \$1.4 billion worth of sales from China, but is estimating that number could jump to \$2.6 billion in the next two years.

Magna is also looking for other ways to increase revenue, such as the opening of a new production facility in Michigan. The company is also looking for acquisitions in the US\$3 billion to US\$5 billion range.

Once the dust settles from the stock split, the drop in production may lead to a drop in share price. The average price target has already fallen from \$121.00 to \$104.00, and the \$135.88 closing price on Friday presents some interesting options. Risky investors could see this as an opportunity to load up before the dividend/stock split, then sell and wait for prices to get closer to the target range before reinvesting for the future.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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