



Is Magna International Inc. the Top Manufacturing Stock to Buy Today?

Description

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)), one of the world's leading manufacturers and distributors of automotive products, announced mixed first-quarter earnings results on the morning of May 7, and its stock has responded by rising over 7.5% in the trading sessions since. Let's take a closer look at the results and the company's outlook going forward to determine if the stock could head even higher from here, and whether or not we should consider initiating long-term positions today.

Breaking down the mixed first-quarter report

Here's a summary of Magna's first-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Reported	Expected	Year-Ago
Diluted Earnings Per Share	\$1.12	\$1.11	\$0.88
Revenue	\$8.33 billion	\$8.45 billion	\$8.96 billion

Source: Financial Times

Magna's diluted earnings per share increased 27.3% and its revenue decreased 7% compared with the first quarter of fiscal 2014. Magna's very strong earnings-per-share growth can be attributed to its net income increasing 18.3% to \$465 million, driven by its cost of sales decreasing 7.5% to \$7.18 billion and its weighted average number of diluted common shares outstanding decreasing 7.2% to 415 million.

The company's slight decline in revenue can be attributed to the weakening of certain currencies against the U.S. dollar, primarily the Euro and Canadian dollar, which reduced its sales by approximately \$880 million in the first quarter. Excluding the impact of foreign currency translation, Magna's sales increased 2.8% to \$9.21 billion.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Vehicle production decreased 0.4% to 4.102 million units in North America
2. Vehicle production decreased 0.5% to 5.095 million units in Europe
3. External production sales decreased 5.2% to \$7.19 billion
4. Complete vehicle assembly volumes decreased 23.3% to 27,343 units
5. Complete vehicle assembly sales decreased 28.2% to \$584 million
6. Tooling, engineering, & other revenues decreased 1.8% to \$559 million
7. Gross profit decreased 4.3% to \$1.15 billion
8. Gross margin expanded 40 basis points to 13.8%
9. Adjusted earnings before interest and taxes increased 6.1% to \$642 million
10. Income from operations before income taxes increased 8.6% to \$631 million
11. Cash provided by operating activities decreased 38% to \$294 million
12. Ended the quarter with \$1.13 billion in cash and cash equivalents, a decrease of 9.6% from the beginning of the quarter

Also, as a result of the aforementioned currency headwinds, Magna lowered its full-year sales outlook for fiscal 2015. The company now expects total revenue in the range of \$30.8-32.5 billion in fiscal 2015, compared with its previous outlook of revenue in the range of \$33.1-34.8 billion.

Will the rally in Magna's stock continue?

It was solid first quarter for Magna International, so I think the post-earnings rally in its stock is warranted. I also think the stock could head much higher from here.

It still trades at very low valuations, including just 14.7 times fiscal 2015's estimated earnings per share of \$4.68 and only 12.1 times fiscal 2016's estimated earnings per share of \$5.66, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 22.2.

I think Magna's stock could consistently command a fair multiple of at least 16, which would place its shares upwards of \$74.75 by the conclusion of fiscal 2015 and upwards of \$90.50 by the conclusion of fiscal 2016, representing upside of more than 8% and 31%, respectively, from today's levels.

With all of the information provided above in mind, I think Magna International represents a great long-term investment opportunity today. Foolish investors should take a closer look and consider beginning to scale in to positions.

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