



## Magna International Inc.'s Earnings Preview: Here's What to Expect

### Description

If there's one company that has crushed the market this year, it's **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)). Having watched the stock jump a whopping 22% year-to-date, investors are wondering if there's room for more run. They'll get an answer this week when the auto parts manufacturer reports its second-quarter earnings this Friday. Here's what to watch for in the earnings report.

#### Will profits defy slow revenue growth?

Magna will likely report lower revenue for Q2 as currency fluctuations are giving it a hard time. In Q1 Magna's revenue dropped 7% largely because of currency headwinds. In fact, the company even trimmed its 2015 sales guidance about US\$30.8-32.5 billion, reflecting a nearly 11% drop from 2014 at the higher end of the range.

But what sets Magna apart is its ability to grow profits even in low revenue-growth situations, which is what investors need to watch for when the company reports this week. Lower costs and incremental margins on new launches boosted Magna's Q1 net income by 18% year over year. There's every chance that the company will report strong profit growth in Q2, considering that it expects to end 2015 with better operating margins versus 2014.

#### Two updates to keep an eye on

Aside from numbers, two key updates that investors should watch for in Magna's upcoming earnings report are its planned acquisition of automotive transmissions company Getrag, and its outlook about China.

Rising uncertainty in China could hurt Magna's growth prospects. After its joint venture with China-based Chongqing Xingqiaorui in May, Magna is pinning its hopes on Getrag to give it headway into the market. So, it's important to keep an eye on whether or not Magna's sales from Asia are showing any kind of stress in Q2, and what the company has to say about the Chinese automotive market.

#### Don't miss Magna's growth plans

I'd urge investors to tune into Magna's earnings call this week to get an insight into the company's future plans. Aside from expansions and acquisitions, Magna is also divesting non-profitable businesses to boost its return on investments and focus on core business. Look for updates about the company's capital spending budget for the year and the cost savings it expects to gain from the disposal of non-core operations going ahead, as that should give you a good idea about how Magna is positioning itself for the future.

As Magna looks poised to deliver another quarter of growing profits, investors should pay greater attention to its fundamentals than to quarter-specific numbers this week to know where the company and its stock are headed.

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