



## Magna International Inc. Is Poised to Be the Next Dividend-Growth Superstar

### Description

These days, in a world where interest rates are low and many investors enjoy significant tax savings from collecting income in the form of dividends, many people are looking for investments that pay good income right now with a history of growing those distributions.

Yes, I'm talking about the dividend-growth strategy that's become so popular with investors.

While I think it's a sound strategy, I believe it's something most suited for older investors. Many of the most popular Canadian dividend-growth stocks are slow growers in mature industries. They're still able to give investors steady growth, but nothing that's going to lead to massive outperformance. In other words, most Canadian dividend-growth stories are perfect for folks who are closer to retirement.

For younger investors, I think there's a better strategy. Instead of focusing on the past, it's better to look forward. Take a smaller dividend now as long as it has the potential to get much higher over the years. Since young investors aren't living on those dividends, it makes sense to forgo income today for the potential of much more income in the future.

There are several such companies that trade on the Toronto Stock Exchange. Let's take a closer look at **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)).

### The business

Magna is one of the world's largest manufacturers of auto parts, making everything from interiors to engine parts to the electronics behind the popular infotainment systems. It has dozens of different manufacturing facilities around the world, including North America, Europe, Asia, and South America. If you've heard of the car brand, chances are Magna makes parts for it.

Because Magna is so good at what it does, it's often simpler for a car manufacturer to just outsource the production of some difficult parts to Magna. Once the auto maker gets a price, it can simply factor that into the price of the car. The auto company gets price certainty, while Magna can make a profit on the parts.

Because Magna has gotten so diversified over the years, it creates a snowball effect. A company gets Magna to make them a part, the company likes it, so they hire Magna for other parts. Magna can then take those profits and either use them to get into new areas, or to buy up competitors who are in areas where it's weak.

This has led to solid revenue and profit growth over the years. At the end of 2011 Magna did US\$28.7 billion in revenue and US\$1 billion in profit. In 2014 it did more than US\$36.6 billion in revenue and earned US\$1.88 billion in profit. And since the company bought back more than 50 million shares during that time, earnings more than doubled from \$2.10 to \$4.64 per share.

### **The dividend opportunity**

Analysts expect this growth to continue, with profit expectations of \$7.04 per share in 2016. Not only does that put shares at just 10 times future earnings, but it also indicates a practically microscopic payout ratio.

Magna is currently on pace to pay just US\$0.88 per share in dividends in 2015. That's a payout ratio of just over 15% of earnings, which is about as low as you'll see. Needless to say, there's all sorts of potential for the dividend to go higher.

And remember, management is still aggressively buying back shares, which is essentially a dividend in a different form. It spent more than US\$1.7 billion in 2014 alone acquiring its own stock, while paying more than US\$300 million in dividends. For a \$29 billion company, that's a sizable return to investors.

Magna has a corporate policy that states it wants to pay out approximately 20% of all earnings as dividends. This means that by the end of 2016, investors could see a 30-40% raise in their dividends. And that's just the beginning, especially when Magna decides to get a little more serious about paying dividends. When that happens, investors could easily see \$3-4 per share in annual dividends.

Folks who like serious dividend growth should pay attention to Magna's potential. It's that simple.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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### **Date**

2025/08/26

### **Date Created**

2015/08/07

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