



Don't Ignore the Future Growth in Magna International Inc.

Description

In July **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) announced the potentially game-changing acquisition of **Getrag Group** for \$1.75 billion. The purchase should have some big ramifications as Getrag is one of the world's largest suppliers of automotive transmissions. In an industry rife with rapid technological change (e.g. autonomous cars), this acquisition should help Magna step into the next stage of growth.

Here are the key facts to know about the acquisition.

The missing link

Getrag has an 80-year history in transmissions and is a technology leader, offering a range of transmission systems that includes manual, automated-manual, dual-clutch, hybrid, and other advanced systems. With such a long history, its product line is well positioned to handle the future technologies involved in car manufacturing. For example, Getrag is a leader in dual-clutch transmissions, a segment that is expected to be one of the highest-growth segments globally over the next decade.

Previously, Magna's Powertrain unit generated less than \$5 billion in annual sales, constituting roughly 14% of total sales. Getrag should fill a void at Magna by enabling it to offer a full transmission lineup.

Better bargaining power with customers

Auto suppliers are increasingly being relied on to provide a full suite of parts and services. Customers are looking to outsource more of the less visible aspects of a car, so they can focus development dollars on areas car buyers care more about.

For example, Magna's CEO, Don Walker, recently said, "The trend among the suppliers is that we now have to be bigger as the auto makers go to us to do more for them. They have limited resources and we can provide them the expertise they need. You also need to be global."

Rounding out its transmission offerings will allow Magna a very competitive seat at the table when

discussing long-term opportunities with major customers.

Asia at last

One of the biggest growth drivers created by the deal stems from Getrag's massive exposure in Asia, specifically China. Getrag already has numerous joint ventures with auto makers such as **Jiangling Motors Corporation, Ltd.**, **Dongfeng Motor Group Co. Ltd.**, and **Ford Motor Company**. About 30% of Getrag's business is expected to come from Chinese-based auto makers by 2019.

A lot to like

Over the past five years, the company averaged EPS growth of nearly 20% annually, and analysts expect it to grow another 12% annually over the next five years. For such a high-growth company, Magna International trades at a very attractive valuation. At only 10 times earnings, investors are paying roughly half the premium than that of the overall market.

With the acquisition of Getrag Group, things are only looking up. Armed with plenty of growth opportunities and a rock-bottom price, savvy investors should take a second look.

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1. Investing

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1. Editor's Choice

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2. TSX:MG (Magna International Inc.)

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