



## The Volkswagen Scandal and How it Could Affect Your Portfolio

### Description

You're probably glued to updates about the Volkswagen scandal if you're a curious soul like me. After all, it's hard to believe how an auto giant could risk messing with emission tests in its race to the top. Volkswagen has reportedly admitted to having installed software intended to cheat on emission tests in 11 million cars globally, sending shock waves through the industry.

While Volkswagen shareholders must be watching in horror as their shares bleed, your portfolio could also feel the repercussions if you're invested in companies that are associated with Volkswagen in any way, such as its suppliers and dealers. Here are some stocks that could suffer in the wake of the scandal.

#### **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#))

Magna International could perhaps take the biggest hit among the companies discussed here as Volkswagen counts among its six largest customers: In 2014, Volkswagen contributed nearly 11%, or US\$4.1 billion, to Magna's total revenue.

Ironically, just this past August Volkswagen listed Magna as one of its "Future Automotive Supply Tracks" strategic partner, with plans to strengthen its collaboration with the auto supplier in the near future. All that has gone up in smoke.

Also, Magna generated nearly 27% of its total sales from Europe last year. Considering that Volkswagen currently dominates a quarter of the European passenger car market, Magna's sales from the region could take a substantial hit.

What's worrisome is that Magna already downgraded its production sales outlook from Europe during its last earnings release, projecting to generate US\$6.8-7.2 billion in sales for the year versus its earlier projection of US\$8.8 billion in sales. While much of the revised outlook came on the back of currency headwinds, the Volkswagen issue is a double whammy.

#### **AutoCanada Inc.** ([TSX:ACQ](#))

This automobile dealerships company must be stuck with hundreds of Volkswagen cars that suddenly have no takers. A deeper look into AutoCanada's financials reveals that it currently operates six Volkswagen dealerships in Canada, or 12% of its total dealership count in the nation.

More notably, one of AutoCanada's key growth projects in progress is the setting up of a new 45,000 square feet Volkswagen dealership at Sherwood Park, Alberta. AutoCanada plans to complete construction at the dealership by early next year, and have planned the "potential of 800 new vehicles annually" within two to three years of commencing operations.

While AutoCanada expects VW to compensate dealers, it's nothing but a wait-and-see situation for now. More importantly, the Sherwood project's future now hangs in the balance, and that could deal AutoCanada a big blow.

Remember, AutoCanada already signaled a slowdown in sales during its last quarterly earnings release thanks to low oil prices and low consumer confidence. The company talked about excess inventories—an issue that could assume bigger proportions as sales of Volkswagen vehicles come to a standstill. All this is bound to have repercussions on AutoCanada's sales and profits and its stock price.

#### **Martinrea International Inc. ([TSX:MRE](#)) and Linamar Corporation ([TSX:LNR](#))**

Both Martinrea and Linamar supply parts and components to Volkswagen. The companies do not provide a detailed breakdown of revenue per customer, but Linamar reportedly derives less than 5% of its sales from VW, while *Financial Post* pegs Martinrea's exposure to VW at less than 2% of sales.

While that may not be much, even a tiny exposure could hurt the companies, and it's still too early to say by how much. It's also worth noting that both Martinrea and Linamar have substantial exposure to Europe. Martinrea generated 19% sales from the region, while Linamar derived 14% of its automotive sales from Europe last year.

Why is that important? Because the VW scandal could have ripple effects, landing other auto companies under scrutiny. Earlier this month, the International Council on Clean Transportation reported 32 European diesel vehicles to be emitting nitrogen oxide emissions double the regulatory limit.

Needless to say, suppliers and dealers in the auto industry could find themselves in a fix if on-road tests continue to spring up shocks that compel regulators across the globe to swing to action.

#### **CATEGORY**

1. Investing

#### **POST TAG**

1. Editor's Choice

#### **TICKERS GLOBAL**

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

3. TSX:LNR (Linamar Corporation)
4. TSX:MG (Magna International Inc.)
5. TSX:MRE (Martinrea International Inc.)

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