Is Magna International Inc. a Buy After Falling 10%?

Description

The stock price of **Magna International Inc.** (TSX:MG)(NYSE:MGA) fell 10% after the company released its third-quarter results. This is a nice reminder of how the stock market behaves. Stocks can provide higher returns, but at the same time they introduce higher risk.

Investors should keep in mind that stocks can be volatile, especially around earnings time. And you must keep calm even in the face of volatility such as this if you want to invest in stocks.

Why the 10% fall?

For the third quarter that ended on September 30, 2015, Magna International's sales decreased by 7% compared with the third quarter of last year. However, the main culprit is the strong U.S. dollar. Without the impact of foreign currency, sales actually increased by 3% compared with the same period last year.

However, the big picture is still a decline in sales. The company now expects sales for 2015 to be between US$31.3 and $32.6 billion, which would be a decline of 5.2-9% from last year.

The business

Magna International is a leading automotive supplier. It has 285 manufacturing operations and 83 product development, engineering, and sales centres. Its operations span across 29 countries. The business is actively growing in China, South America, Eastern Europe, and India.

At its core, Magna International is an engineering and manufacturing company with vehicle expertise across many areas. For instance, its product capabilities include producing body, chassis, exterior, seating, powertrain, electronic, and roof systems, as well as complete vehicle engineering.

About 84% of its sales are from production sales, and about 65% of that is in North America, and 26% in Europe. About 16% of its sales comes from complete vehicle assembly.

Dividend and buyback

Magna International is continuing with a quarterly dividend of US$22 cents. It has increased dividends for five years in a row. With the stronger U.S. dollar, Canadian investors enjoy a higher yield of 1.8% at $62.50 per share. It has a payout ratio of under 20%, and it has maintained that low payout ratio for the last three years.

Further, once approved by the Toronto Stock Exchange and the New York Stock Exchange, Magna International is planning to buy back and cancel up to 40 million of its common shares, or roughly 10% of its public float.

In conclusion

Magna International has a strong balance sheet with an S&P credit rating of A- and debt-to-cap ratio of 8%. Because it is in a cyclical consumer sector, it can occasionally experience big dips such as the 10% dip on November 5.

Buying shares during dips like these could lead to higher returns over the long term. However, you'd need to decide whether or not you want to become a part owner in a cyclical consumer stock in the auto parts and equipment business.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:MG (Magna International Inc.)

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