



Should You Buy Magna International Inc. After the Earnings-Induced Sell-Off?

Description

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) is one of the world's leading suppliers of automotive products and services, and it announced mixed third-quarter earnings results before the market opened on November 5. Its stock responded by falling over 10% in the day's trading session, and it has only partially recovered since.

The stock now sits more than 18% below its 52-week high of \$59.42 reached back in June, so let's break down the quarterly results and the fundamentals of its stock to determine if we should consider establishing long-term positions today or if we should wait for an even better entry point in the days ahead.

Foreign exchange headwinds lead to year-over-year declines

Here's a summary of Magna's third-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Diluted Earnings Per Share	\$1.13	\$1.09	\$1.14
Revenue	\$7.66 billion	\$7.75 billion	\$8.25 billion

Source: *Financial Times*

Magna's diluted earnings per share from continuing operations decreased 0.9% and its revenue decreased 7.1% compared with the third quarter of fiscal 2014.

The company noted that these year-over-year declines could be attributed to the weakening of certain currencies against its U.S. dollar reporting currency, primarily the euro and the Canadian dollar, which reduced its sales by approximately \$870 million.

Excluding the negative impact of foreign currency translation, Magna's revenues rose over 3% and its earnings per share would likely have shown strong growth compared with the year-ago period.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Net income from continuing operations decreased 3.5% to \$470 million
2. Vehicle production volumes increased 4% to 4.259 million units in North America
3. Vehicle production volumes increased 4.3% to 4.676 million units in Europe
4. Complete vehicle assembly volumes decreased 28% to 23,176 units
5. Income from continuing operations before income taxes increased 11.3% to \$680 million
6. Adjusted earnings before interest and taxes decreased 9.9% to \$565 million
7. Cash provided by operating activities decreased 18.5% to \$596 million
8. Weighted-average number of diluted shares outstanding decreased 3.4% to 413.8 million

Magna also made two important announcements. First, it announced a slight increase to its full-year revenue outlook, now calling for revenue in the range of \$31.3-32.6 billion, which is up from the \$30.9-32.6 billion range it provided in its second-quarter report.

Second, it announced that its board of directors approved a normal course issuer bid to purchase up to 40 million shares of its common stock, representing approximately 9.9% of its total public float, and this is now subject to approval by the Toronto Stock Exchange and the New York Stock Exchange.

Does the sell-off represent a buying opportunity?

At first glance, it was a very weak quarter for Magna, but when you consider that it was entirely due to the strengthening of the U.S. dollar, it wasn't all that bad. With this being said, I think the stock is oversold at this point and represents a great long-term investment opportunity, because it trades at very attractive forward valuations and because the company has been repurchasing its shares.

First, Magna's stock now trades at just 10.8 times fiscal 2015's estimated earnings per share of \$4.46 and a mere nine times fiscal 2016's estimated earnings per share of \$5.38, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.6 and its industry-average multiple of 26.5.

I think Magna's stock could consistently trade at a fair multiple of at least 11.5, which would place its shares upwards of \$61 by the conclusion of fiscal 2016, representing upside of more than 26% from today's levels.

Second, Magna has been repurchasing its shares, including the repurchase of 7.25 million shares of its common stock for a total cost of approximately \$346 million in the third quarter. I also think the company's 40 million share normal course issuer bid will gain quick approval by the exchanges, allowing it to repurchase nearly 10% of its total shares outstanding, and this will help boost its earnings-per-share growth going forward and make its remaining shares more valuable than ever.

With all of the information above in mind, I think Foolish investors should strongly consider using the post-earnings drop in Magna's stock to begin scaling in to long-term positions.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date

2025/08/26

Date Created

2015/11/09

Author

jsolitro

default watermark

default watermark