



Why Magna International Inc. Had a Turbulent Year and Where it's Headed

Description

In December 2014, **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) was up 46% year to date, and it turns out to be one of the top-performing stocks of the year.

In December 2015, Magna is down 9% year to date and leaves investors poorer as they step into a new year.

That wasn't the kind of scenario investors in the auto-parts manufacturer expected to play out when they rang in 2015, especially with the recovery in the U.S. automotive market. In fact, the U.S. auto market has had a tremendous year; October even turned out to be the best month in a decade for the industry.

So what went wrong with Magna, considering that it gets half its revenue from North America? Will the company's struggles continue into next year?

Actually, there's nothing wrong here!

It's not that Magna didn't benefit from strong auto sales in the U.S. Its sales from the market improved a percentage point during the nine months ended September. More importantly, North America was the only geographic region where Magna's sales grew.

All figures in billions of U.S. dollars. Data source: Company financials. Table by author

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Blame currency headwinds for Magna's tepid growth in 2015. As the company reports numbers in U.S. dollars, a stronger greenback means lower international revenues when converted. In the absence of currency translation headwinds, Magna's sales from North America would've been 6% higher for the nine-month period.

The table above also explains why Magna's total sales for the nine-month period dropped 8% year over year. While growth in the European market remains a challenge, slowdown in key markets such

as China and Brazil has added to Magna's woes. No wonder, then, that the company's full-year sales projections dropped to US\$31.3-32.6 billion by the third quarter from US\$33.1-34.8 billion projected at the beginning of the year.

While that sounds uninspiring, the market sadly appears to have missed the bigger picture.

On the right track

Despite lower sales, Magna expects to end 2015 with a flattish operating margin of 7.7%. In fact, Magna's net income *improved* 4% during the nine months despite lower revenue. While cheaper input has helped, Magna's aggressive restructuring efforts, including divestment of non-profitable operations, have played a key role in boosting profits.

Meanwhile, Magna continues to strive hard to boost revenues with new products and expansion programs across the globe.

Will Magna bounce back in 2016?

It could have, had Volkswagen not added an element of uncertainty. [The Volkswagen scandal](#) is bound to hit Magna as the auto giant counts among its six key customers, contributing a little more than 10% to its sales. The growing uncertainty in China and Brazil's shrinking economy are added concerns.

That said, Magna looks very attractive right now from a valuation standpoint: the stock is trading at only eight times trailing earnings, even as analysts project the company to grow at a 19% clip in 2016.

In fact, this could be a great time for investors to consider owning one of the world's leading auto-parts suppliers with an enviable customer list that includes names like **General Motors, Ford, Fiat-Chrysler**, BMW, and Daimler. As external headwinds fade, Magna could emerge as a solid turnaround stock.

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