



## 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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