



Should You Buy Magna International Inc. or Linamar Corporation?

Description

Magna International Inc.'s ([TSX:MG](#))([NYSE:MGA](#)) share price has recovered about 20% from its low in February. However, the shares are still about 26% lower than its 52-week high of about \$72.

Linamar Corporation's ([TSX:LNR](#)) share price has recovered about 16% from its February low, but its shares remain about 32% lower than its 52-week high of about \$85.

Which auto parts supplier should you consider today? Before you make a decision, let's take a look at their businesses and dividend history and consider if they're good buys today.

The businesses

Magna has about 300 manufacturing operations and roughly 90 product development, engineering, and sales centres in 29 countries. The auto parts supplier produces the body, chassis, exterior, seating, powertrain, electronic, vision, closure and roof systems and modules. It also does complete vehicle engineering and contract manufacturing.

Linamar has about 56 manufacturing locations, six research and development centres, and 15 sales offices in 17 countries in North and South America, Europe, and Asia. The auto parts supplier consists of two operating segments—the Powertrain/Driveline segment and the Industrial segment, which are further divided into four operating groups: Machining and Assembly, Light Metal Casting, Forging, and Skyjack.

At \$53 per share, Magna has a market cap of \$21.5 billion, which is more than four times the size of Linamar's market cap, which is \$3.8 billion at \$58 per share. However, Linamar's operating margin of 11.5% is higher than Magna's, which indicates Linamar might have a competitive advantage and thus be more profitable.

Dividends

Magna has increased its dividend for six consecutive years. It currently pays a quarterly dividend of US\$0.25 per share, totaling an annual payout of US\$1 per share, which equates to a yield of 2.5%.

Magna last increased its dividend by 13.6% in February. On the other hand, Linamar pays a small yield of 0.7%, and it doesn't have a history of increasing its dividend.

Valuation

Although both Magna and Linamar recovered from recent lows, they're still discounted from their normal multiples. Magna normally trades at 10.2 times its earnings, but it trades at 8.4 times its earnings today. So, its shares have a margin of safety of about 20% or potential for about 26% upside.

On the other hand, Linamar has historically traded at 12.3 times its earnings, but it trades at 8.5 times its earnings today. So, its shares have a margin of safety of about 36% or potential for about 56% upside.

Conclusion

If you like steady dividend growth, consider Magna, which has increased its dividend for six years and has a conservative payout ratio of about 22%. It also pays a higher dividend yield than Linamar. However, if you're a total-return investor, consider Linamar, which may deliver higher total returns in the form of price appreciation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)

Category

1. Dividend Stocks
2. Investing

Date

2025/08/15

Date Created

2016/04/18

Author

kayng

default watermark