Investors: 3 Huge Reasons to Get Excited About Magna International Inc.

Description

It's tough to identify compelling opportunities in today's stock market.

Investors not only have to figure out which companies are poised to grow, but they also have to make sure they pay a good price for such an opportunity. Often, stocks with significant growth potential are priced for perfection. If they stumble just a bit, so does the stock price.

But there are a few good opportunities in today's market. Here are three reasons why I think **Magna International Inc.** (TSX:MG)(NYSE:MGA) is one of the most interesting out there.

Cheap valuation

Magna is in the auto parts business, supplying parts and expertise to just about every auto manufacturer on the globe. It has operations in 29 different countries spanning four different continents.

Unfortunately for shareholders, the auto business is a cyclical one. So even though recent results have been solid, shares of Magna have sold off in sympathy with the rest of the sector. They're off more than 15% in the last year.

This has presented investors with a very compelling buying opportunity. Magna sells for just 9.2 times trailing earnings–a ridiculously low price to pay for a company with such a long history of outperforming.

Over the last 10 years, Magna shares are up 156.4% in Canada, not including dividends. The TSX Composite has only posted a lousy 13.5% gain during that same period. And the TSX Composite sure isn't trading for less than 10 times earnings.

Dividend-growth potential

Magna is poised to become a huge dividend-growth superstar over the next couple of decades.

The company pays a current quarterly dividend of US$0.25 per share. That's an increase of nearly 100% since 2012, back when the company paid US$0.1375 each quarter. That's growth of more than

20% per year.

The future might not be that good, but I still don’t think investors will be disappointed with the results. Magna earned US$4.21 per share in 2014. That gives the company a payout ratio of less than 24% of earnings.

Even if earnings don’t increase–which is a very pessimistic outlook–the company still has potential to keep increasing the dividend. The dividend could double in the next five years and still be at a lower payout ratio than many of Canada’s premier dividend-growth stocks.

And it’s not as though investors are giving up yield today for this potential. Magna shares still offer a relatively attractive dividend of 2.4%, a yield that beats most fixed-income options in today’s market.

Apple Car

Although it’s not official yet, rumours are flying that Magna is going to end up being the manufacturer of the new **Apple** Car.

It’s hard to gauge the potential market for the newest Apple project. It probably won’t get anywhere close to the market share Apple enjoys in smartphones–for all sorts of reasons–but there’s still plenty of potential for an Apple Car to really shake up the market.

Remember, there are approximately 88 million cars sold each year around the world, and industry analysts predict that number could surpass 100 million annual units by 2020. Since the Apple Car isn’t expected to hit the market until 2019, we can estimate that capturing just 1% of the global auto market could translate into one million units.

That’s a huge potential coup for Magna. Sure, Apple will push for a good deal from the manufacturer, like it does with all of its suppliers. But since there’s more money to be made from selling a car compared to a phone, there’s still plenty of margin there to ensure Magna gets paid well. And since Apple is a premium brand, the company will be more concerned with quality over price.

Magna is an interesting stock based on its valuation and dividend-growth potential alone. Add in the excitement of getting the Apple Car contract, and I think investors have the recipe for a potential winner.

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