



Auto Parts Stocks Are Attractive Today: Should You Buy?

Description

Auto Parts stocks, including **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), **Linamar Corporation** ([TSX:LNR](#)), and **Exco Technologies Limited** ([TSX:XTC](#)) are more attractive today than they were two months ago.

Magna's share price has fallen about 6%, and both Linamar and Exco's share prices have plummeted about 18%.

Should you buy today? Investors should only consider these stocks when they're priced at attractive valuations because of the cyclical nature of their businesses.

The businesses

Magna is the largest of the three with a market cap of over \$20.8 billion. It has 305 manufacturing operations and 93 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 contract manufacturing and vehicle engineering.

Linamar has 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.

Exco supplies innovative technologies, servicing the die-cast, extrusion, and automotive industries. It has 18 manufacturing locations in 10 countries with operations based in North America, Mexico, Colombia, Brazil, and Thailand.

Dividends

Both Magna and Exco pay a growing dividend. Magna has increased its dividend for six consecutive years, while Exco has done so for a decade. In the past five years, Magna's dividend increased by 15% per year on average, while Exco's increased by 23% per year on average.

Magna pays a U.S. dollar-denominated distribution. At under \$52.50, Magna yields 2.5% with a payout ratio of under 23% based on its 2015 earnings and the current foreign exchange between the Canadian dollar and the U.S. dollar.

At \$52, Linamar yields 0.8% with a payout ratio of 6%. Exco yields 2.1% with a payout ratio of 29%. They all have sustainable payout ratios, but Linamar's is the most conservative.

Conclusion: Should you buy?

If you're interested in the auto parts companies, you're in luck. They're all priced at reasonable valuations today. Magna is discounted by about \$10 per share (roughly 16%) based on its normal multiple, Linamar is about 40% off, and Exco is just about fairly valued.

The companies' operating margins are as follows: Magna's is about 7%, Linamar's is about 10.5%, and Exco's is about 9.7%. So, this suggests Linamar is the most profitable of the group.

Out of the three, I believe Linamar is the best value today. However, if you're more comfortable with a growing dividend, you can consider Magna or Exco.

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.)
4. TSX:XTC (Exco Technologies Limited)

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