



Auto Parts Suppliers: Which of the 3 Is the Best Investment?

Description

These auto parts suppliers have declined 18-35% from their 2015 highs. Which is the best investment today?

When it comes to the group, most people think the best is **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) because it's the biggest. Or maybe they'll think of **Linamar Corporation** ([TSX:LNR](#)).

Exco Technologies Limited ([TSX:XTC](#)) comes to mind last (if it comes to mind at all) because it's the smallest with a market cap of \$582 million at Thursday's close.

Does being small implies higher growth? It should because it's easier for a company to grow annual revenues from \$1 million to \$2 million than for a company to grow its revenues from \$1 billion to grow to \$2 billion.

Let's look at some past data that could offer some insight into the future for the company with the highest returns.

Returns

In 10 years, a \$10,000 investment in Exco transformed to roughly \$36,600, of which about \$3,120 was from dividends.

Similarly, a \$10,000 investment in Linamar transformed to about \$42,400, of which about \$1,790 was from dividends.

The same investment in Magna transformed to \$28,420, of which about \$2,580 was from dividends.

Earnings and dividends

In 10 years Exco's earnings per share (EPS) grew at an annualized rate of 13.5%. The company increased its dividend by 16.5% per year. Exco has increased its dividend for 10 consecutive years. At about \$13, Exco yields 2.1% with a payout ratio of 26%.

In 10 years Linamar's EPS grew at an annualized rate of 16.5%. The company increased its dividend by 5.8% per year. Linamar has no record of consecutive dividend growth. At about \$50.50, Linamar yields 0.8% with a payout ratio of 6%.

In 10 years Magna's EPS grew at an annualized rate of 11.9%. The company increased its dividend by 12.3% per year. Magna has increased its dividend for six consecutive years. At about \$52, Magna yields almost 2.5% with a payout ratio of 21%.

Valuation

Exco trades at fair value but has the potential to return more than 20% per year from double-digit growth.

Linamar trades at about 7.3 times its earnings and has a margin of safety of 45% to its normal multiple.

Magna has a margin of safety of 20% from its normal multiple.

Conclusion

In the past decade, less than 10% of returns from an investment in these companies were from dividends. So, investors should buy these companies for their capital appreciation.

Of the three, Linamar delivered the highest returns, but Exco paid the highest amount of dividends and had the most consistent record of dividend growth.

If past performance were an indicator of future performance, I'd consider Exco and Linamar today and view Exco as less speculative due to its commitment to a growing dividend, which is more predictable than stock-price appreciation.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/07/19

Date Created

2016/05/13

Author

kayng

default watermark

default watermark