



## 2 Massive Mega-Trends Every Investor Needs to Know About (and Profit From)

### Description

Every so often, massive economic and technological shifts create once-in-a-decade, or perhaps once-in-a-lifetime, opportunities for investors. During the 1990s, the commercial growth of the internet led to a historic surge in information technology stocks. Dell, for example, saw its stock surge 91,900% over the decade, and **Microsoft Corporation** shares surged by 9,800%.

Outside technology, there was the “commodity super-cycle,” which referred to a period from the late 1990s to around 2011 when most commodities saw triple- and quadruple-percent returns, driven by a rapidly expanding Chinese economy that averaged a 9.85% GDP growth rate since 1990.

The commercialization of oil sands technology in Canada to meet the growing demand for oil led to an explosion in the share prices of Canadian oil stocks as well as energy infrastructure names (**Enbridge Inc.**, for example, rallied 700% since the year 2000).

What’s next?

Some of the biggest emerging trends include a potential oil-supply shock and the electrification of vehicles.

### The oil rally

Investors may look at this first trend as being unusual as oil’s glory days are widely seen as being over (especially as China’s growth slows and renewable technologies emerge). Nonetheless, the rout in prices over the past two years has been historic, and there is good reason to believe the recovery may be as well.

Prominent investor Jeffrey Ubben of ValueAct Capital thinks oil could spike above US\$100 per barrel for a short period of time, and this outcome is not entirely unlikely. Even if oil doesn’t spike to these levels, it will inevitably rise above current levels.

A look at global breakeven prices reveals why.

A recent report by oil analyst Art Berman reveals that the Bone Spring and Spraberry regions of the Permian Basin (one of the most economic oil regions in the world) have breakeven prices of US\$49 and US\$55 per barrel, respectively. These are the prices needed for companies to sustainably cover their cash costs as well as fund new wells and completions.

The overall breakeven price for U.S. producers is about US\$65 per barrel. With demand expected to grow by over one million bpd annually through to 2020 and global declines being about four to seven million barrels annually, the U.S. (which has become the global swing producer) will need to ramp up its production rapidly, which will require much higher prices.

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is one way to play this coming trend. Baytex has exposure to the U.S. Eagle Ford region as well as Canadian heavy oil, and the relatively higher breakeven prices for Canadian oil means Baytex will be leveraged to a recovery in oil prices.

### **The electrification of automobiles**

While oil may spike over the next couple of years, the long-term trend will be away from oil. Electric vehicles are almost certainly the future. Ontario recently proposed that every multi-vehicle driveway in the country should have either a hybrid or electric vehicle by 2024, which would require that essentially 25% of vehicle sales (on average) between now and then be a hybrid or electric vehicle.

Global regulations will partially propel this trend. U.S. regulations are targeting that vehicles improve from 32.6 miles per gallon in 2015 to 54.5 by 2025. At the same time, the costs of internal combustion engines will grow, whereas the cost of electric vehicles will decline (as battery pack costs fall). One study by Deutsche Bank sees the two types of vehicles being the same cost by 2020. This will lead to an explosion in electrified vehicles.

**Magna International Inc.** ([TSX:MG](#))(NYSE:MGA) is one way to gain exposure to this. Magna is currently the only parts manufacturer that has the ability to manufacture and design a complete vehicle. Magna also has the most diversified product portfolio in the industry. The company has identified electrification of vehicles as one of the key mega-trends it is aligning its product portfolio towards. Magna's recent acquisition of Getrag will complement this because it has expertise in hybrid transmissions.

With Magna involved with nearly every vehicle manufacturer, it is almost certain that Magna will benefit from the trend of the electrification of vehicles.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:MGA (Magna International Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:MG (Magna International Inc.)

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