Why Magna International Inc. and Pembina Pipeline Corp. Are up Over 2% Today

Description

Magna International Inc. (TSX:MG)(NYSE:MGA) and **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) released their second-quarter earnings results in the last 24 hours, and their stocks have responded by rising over 2%. Let's take a closer look at each company, their quarterly results, and the fundamentals of their stocks to determine if we should be long-term buyers of one or both of them today.

Magna International Inc.

Magna is one of the world's largest automotive suppliers with operations in 29 countries. It designs, develops, and manufactures automotive systems, assemblies, modules, and components, and it offers a wide range of services such as engineering and complete vehicle assembly.

In its second-quarter earnings report released this morning, Magna reported a 16.1% increase in sales to US$9.44 billion, a 16.5% increase in adjusted earnings before interest and taxes to US$789 million, a 3.7% increase in net income from continuing operations to US$558 million, and a 9.3% increase in diluted earnings per share from continuing operations to US$1.41 when compared with the year-ago period. The market has responded to these very strong results by sending its stock more than 4% higher in early trading.

I think the rally in Magna's stock is warranted, and I think it still represents a great long-term buy today for two primary reasons.

First, it's still undervalued. Magna's stock still trades at 7.8 times fiscal 2016's estimated earnings per share of US$5.10 and 6.9 times fiscal 2017's estimated earnings per share of US$5.76, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 10.7. These multiples are also inexpensive given its estimated 10.8% long-term earnings-growth rate. With these statistics in mind, I think its stock could safely trade at a multiple of about 10.

Second, it has a great dividend. Magna pays a quarterly dividend of US$0.25 per share, representing US$1.00 per share on an annualized basis, which gives its stock a yield of about 2.5%. It's also very important to note that its 13.6% dividend hike in February has it on pace for 2016 to mark the seventh consecutive year in which it has raised its annual dividend payment, and its strong growth of operating cash flows, including its impressive 40.4% year-over-year increase to US$1.01 billion in the first half of 2016, could allow this streak to continue for many years to come.

Pembina Pipeline Corp.

Pembina Pipeline Corp. (TSX:PPL)(NYSE:PBA) is a pure-play energy infrastructure company with over $14 billion in assets across Canada and in North Dakota, U.S. Its portfolio includes conventional oil, oil sands, and heavy oil pipelines, natural gas pipelines, processing facilities, and fractionation plants, oil and natural gas storage facilities, and truck terminals.

In its second-quarter earnings report released after the market closed yesterday, Pembina reported a 22.2% increase in net revenue to $429 million, a 27.6% increase in adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) to $291 million, a 17.6% increase in adjusted cash flow from operating activities to $0.60 per share, a 162.8% increase in earnings to $113 million, and a 177.8% increase in earnings per share to $0.25 when compared with the year-ago period.

The market has responded to these very strong results by sending its stock about 2% higher in early trading.

I think the rally in Pembina's stock is warranted, and I think it still represents a great long-term buy today for three primary reasons.

First, its new assets will continue to drive growth.

Pembina has been expanding its portfolio over the last several quarters, including its commissioning of $1.5 billion of new assets so far in 2016, and this was a key driver of its growth in the second quarter. It also has approximately $5 billion in committed projects underway that will be commissioned by 2018, which it expects will lead to a 15-25% compound annual growth rate in EBITDA through 2018.

Second, it still trades at attractive valuations.

Pembina's stock still trades at 31.4 times fiscal 2016's estimated earnings per share of $1.25 and 24.2 times fiscal 2017's estimated earnings per share of $1.62, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 34.9. These multiples are also inexpensive given its estimated 16.4% long-term earnings-growth rate. With these statistics and its $5 billion project portfolio in mind, I think its stock could safely trade at a multiple of about 35.

Third, it's a high-dividend and dividend-growth play.

Pembina pays a monthly dividend of $0.16 per share, representing $1.92 per share on an annualized basis, which gives its stock a very high yield of about 4.9%. It's also very important to note that its two dividend hikes since the start of 2015 have it on pace for 2016 to mark the fifth consecutive year in which it has raised its annual dividend payment, and its consistent growth of operating cash flow, including its 1.8% year-over-year increase to an adjusted $1.16 per share in the first half of 2016, could allow this streak to continue for the foreseeable future.

CATEGORY

1. Dividend Stocks

2. Investing

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1. NYSE:MGA (Magna International Inc.)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:MG (Magna International Inc.)
4. TSX:PPL (Pembina Pipeline Corporation)

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