



## Donald Trump Will Crush Magna International Inc.

### Description

**Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) is a Canadian company that is the leading global automotive supplier with 285 manufacturing operations and 83 product development, engineering, and sales centres. The stock fell 3.13% this Monday as BMO Capital Markets warned investors that Donald Trump's border tax would "wreak havoc" on Canadian auto parts manufacturers. The stock pulled back a lot less than its peers, but I believe there could be some major downside ahead once more information is released about Trump's border tax.

Donald Trump is determined to "make America great again" by trying to encourage companies to manufacture parts and products locally. Trump threatened German car makers with a 35% import tariff, and I believe he will slap on harsh taxes because he has all of the bargaining power right now. Trump isn't afraid to speak his mind, and you can count on him to turn rhetoric into a policy, even if that means disaster for foreign companies that wish to export goods to the U.S.

Magna could get dinged with a similar tax for its U.S. exports, and that would be an absolute disaster for the company since a huge chunk of their business comes from the U.S. It's unclear how large the tax will be for Canadian auto parts makers, but if it's anywhere close to the tariff that could be placed on German car makers, we could see a huge correction in the price of Magna and its peers.

The stock looks cheap. Could the dip actually be a buying opportunity?

I think there's a very high chance that Trump will follow through with the border tax, and it would be a dangerous move to buy this dip considering the detrimental impact such a tax will have on long-term earnings. This is not a short-term headwind; this is a long-term one that could bring the stock a lot lower for a longer period of time.

The stock may seem cheap right now at an 8.5 price-to-earnings multiple, but I believe it's a value trap that could lose 20% or more of its value over the next year. The price-to-book multiple is also in line with historical averages at 1.8, so it's actually not even that cheap.

I have never been a big fan of the auto parts makers because of the cyclical nature of the business. The stock lost a whopping 74% during the Great Recession, and any long-term investors would have

been hammered during this period if they did not sell on the way down. There is too much uncertainty with Magna right now regarding the huge border tax that may be put in place later this year.

I would steer clear of Magna like the plague.

## CATEGORY

1. Investing

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