



## Steer Clear of Magna International Inc.

### Description

**Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) is an automotive supplier and contract manufacturer that makes automotive systems, assemblies, modules, and other components. The stock has struggled to rebound after the collapse in the latter part of 2015, and it looks like things could get worse before they get better.

### Magna looks cheap, but is it actually undervalued?

The automaker appears to be ridiculously cheap with a 7.73 price-to-earnings multiple, which looks too good to be true.

Why is the stock so cheap?

The company may face huge headwinds under President Trump's new policies that could hurt foreign auto part makers like Magna for the long haul. Just because the stock is cheap doesn't mean it's a good buy or that it possesses a margin of safety. In the case of Magna, there's still a ton of downside possible, so don't tell yourself the stock is close to a bottom just because it's cheap.

Make sure you take a good look at the long-term fundamentals of the business before you buy a stock based solely on traditional valuation metrics like price-to-earnings multiples. There's no question that the stock is facing a major setback, and everyone, including insiders, has been selling the stock like crazy. Sure, the price-to-earnings multiple is low, but this could correct itself once the company reports its anticipated sub-par earnings over the next few quarters.

These types of stocks are called value traps, and those who look at valuation metrics without paying attention to the long-term fundamentals or catalysts could get seriously hurt.

Is Magna a value trap? It's definitely punished investors who bought the stock based on the low price-to-earnings multiple over the past year, as the stock has continued to underperform, despite many investors praising the stock for its cheapness.

## Magna could fall further if the Trump administration follows through

President Trump wants to keep manufacturing in the U.S., and foreign automakers that export to the U.S. could be hit with a hefty tax bill.

Magna CEO Don Walker stated that “it’s too early to tell what the Trump administration will do,” regarding border adjustment taxes, but if you believe Trump will be true to his word, auto suppliers like Magna could fall much further from current levels. I see no reason why Trump won’t follow through with a border tax, as he’s serious about doing whatever he can to “make America rich again,” and this means encouraging auto suppliers to manufacture within the U.S.

Magna is really cheap, but the amount of risk associated with an investment is way too high right now. The stock could plummet if President Trump follows through with a border adjustment tax. I would steer clear of Magna, at least until there’s more certainty regarding this matter.

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