Should Investors Be Looking to the Auto Industry for Value?

Description

The auto industry provides a need for consumers. People need transportation, and society is deeply entrenched with the use of the automobile. There is no other mode of transportation that provides the freedom and independence that vehicles do. Therefore, Foolish investors can take comfort in knowing the auto industry should be around for years to come.

One segment of the auto industry that generates recurring cash flows is auto parts. Cars break down and require regular maintenance and repairs. Therefore, auto parts companies have steady revenue streams which allow them to reinvest in the companies and generate returns for investors.

Magna International Inc. (TSX:MG)(NYSE:MGA) and **Linamar Corporation** (TSX:LNR) are two large players in the Canadian auto parts industry, but do they belong in your portfolio?

Here’s a look at both companies.

Magna

Magna is one of the most diversified and largest auto-parts suppliers in the world. With operations spanning across 29 countries, Magna has a significant global footprint. With its clean balance sheet, the company should be well positioned to maintain its status as an industry leader.

From a valuation perspective, the stock is currently undervalued. The stock currently has a price-to-earnings ratio and price-to-cash flow ratio of 7.7 and 6.7, respectively. This is well below its five-year average of 10.8 and 7.5. Therefore, investors aren’t overpaying for a stock with strong cash flows in an industry of need.

Linamar

Over the past seven years, the company's earnings have been growing at a torrid pace. Thecompany's earnings per share have increased by an annual average of 34% since 2010. With a strongfocus on green technologies and innovation, Linamar should be able to keep up and adapt to anychanges in the auto-parts industry.

What makes the stock even more attractive is that investors don't have to overpay for the rapid growth in earnings. The stock is currently trading at price-to-earnings ratio of 6.88, which is significantly lower than its five-year average of 11.9. The company may only offer a dividend yield of 0.88%, but the current valuation offers a margin of safety for investors to acquire a high-earnings stock.

Foolish bottom line

With the run-up in stock prices in the last year, it's hard to find undervalued stocks in the market. However, these two auto parts companies are well positioned for the long term and should provide reliable returns for investors. Therefore, investors can avoid overpaying for buy-and-hold stocks.

CATEGORY

1. 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.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/02
Date Created
2017/04/17
Author
cbeck