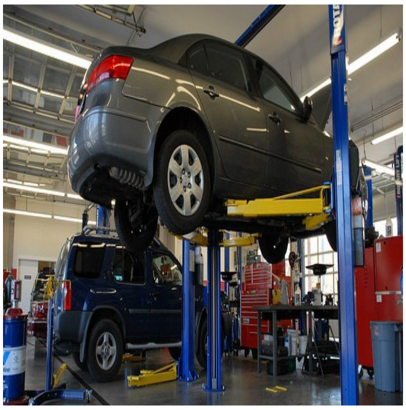

Why Magna International Inc. Is Still a Good Buy

Description

Most investors don’t realize how much of an impact the automotive sector has on our daily lives and on the economy as a whole. A new vehicle may cross in and out of Canada as many as six times during assembly, as an assortment of parts, paint, and controls are added and configured before the finished product appears on a showroom floor.

Equally as surprising is the fact that some investors don’t realize that many of the largest and most well-known automotive parts suppliers and distributors are actually Canadian, and many of those are great buys for investors looking to diversify their portfolios.

One such company is **Magna International Inc.** (TSX:MG)(NYSE:MGA)

There are few automotive suppliers in the market today that have as much influence and reach as Magna. Magna has an awe-inspiring 321 manufacturing and 102 engineering, development, and sales facilities. In total, the company employs over 159,000 employees in 29 countries, making the company a truly global force in the automotive sector.

Despite this impressive portfolio, critics of Magna and the automotive sector as a whole often point to the uncertainty surrounding a potential NAFTA renegotiation as the reason to stay clear of the stock, while others point to the relatively low P/E of just 8.18 as a reason to buy.

In truth, investors should look for a happy medium. While the P/E is low, this doesn’t necessarily make the stock a bargain discount. A weak earnings report could alter this figure, so the stock suddenly becomes expensive by that same metric.

Speaking of earnings, let’s take a look at Magna’s most recent quarterly results for a moment.

In the first fiscal quarter of 2017, Magna reported net income of $586 million, which was 19% higher than the same quarter last year. From an earnings-per-share perspective, Magna improved by 25% over the same quarter last year, coming in at $1.53.

Analysts had widely expected Magna to report earnings of just $1.34 per share for the quarter, but, to be fair, Magna's figure included a favourable impact on having reduced shares, whereas the estimated consensus from analysts typically excludes such items.

From a sales perspective, the company realized $9.37 billion in sales for the quarter, coming in 5% higher than the same quarter last year. This also beat analyst expectations, which called for revenues of just $9.15 billion.

Thanks in part to Magna's diversified business that spans multiple countries, a slowdown in American light vehicle production of 1% in the quarter was largely offset by an increase of 2% in European light vehicle production.

Similarly, complete vehicle assembly sales witnessed a drop of 31% in the quarter, attributed to the end of production of the Countryman and Paceman models from Mini, but those results were also offset by the start of the BMW 5-Series production that began in Austria.

Magna also updated the full-year guidance for fiscal 2017, now expecting sales to come in higher for the year in the $36.6-38.3 billion range.

Why should you consider Magna?

The automotive sector in North America is a finely oiled machine. Thousands, if not millions, of parts pass the border on a daily basis, heading in both directions. Millions of jobs on both sides of the border are dependent on the existing law remaining in place as it is.

While renegotiation could alter the current arrangement slightly, the concept of the law being completely re-written and plants in Canada closing shop and moving south seems extremely unlikely. Even if that scenario were to pan out, Magna has sufficient capital and reach to ensure that after that transition, the company would be as efficient and profitable, if not more so than before the move.

There are also the automotive facilities in other countries that could offset any results affected by a reconfiguration in the North American market.

Either way, investors can take solace in knowing that Magna isn't going anywhere in the near future. It will continue to provide strong results and reward shareholders through a respectable quarterly dividend with a yield of 2.48%.

CATEGORY

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