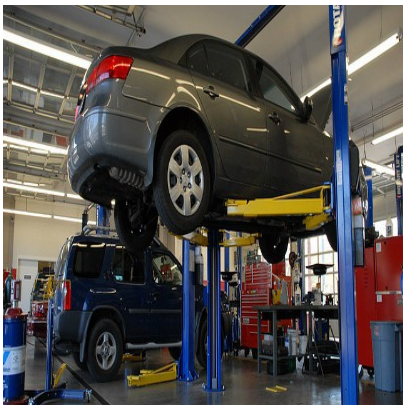

# Why Magna International Inc. Is Down 2%

## Description

**Magna International Inc.** (TSX:MG)(NYSE:MGA), one of the world's leading suppliers of automotive products and services, announced better-than-expected second-quarter earnings results and raised its sales outlook for 2017 this morning, but its stock has responded by falling about 2% in early trading. Let's take a closer look at the quarterly results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity, or if we should hold off on an investment for the time being.



### Breaking down Magna International's Q2 performance

Here's a quick breakdown of eight of the most notable statistics from Magna's three-month period ended on June 30, 2017, compared with the same period in 2016:

| Metric | Q2 2017 | Q2 2016 | Change |
|---|---|---|---|
| Sales | US$9,684 million | US$9,443 million | 2.6% |
| Gross profit | US$1,407 million | US$1,398 million | 0.6% |
| Gross margin | 14.5% | 14.8% | (30 basis points) |
| Adjusted EBIT | US$776 million | US$789 million | (1.6%) |
| Net income | US$561 million | US$558 million | 0.5% |
| Diluted earnings per share (EPS) | US$1.48 | US$1.41 | 5% |
| Cash provided by operating activities | US$557 million | US$588 million | (5.3%) |
| Weighted average number of common shares outstanding (diluted) | 379.5 million | 395.7 million | (4.1%) |

**The raised outlook**

In the press release, Magna raised its full-year sales outlook for 2017. The company now expects total sales in the range of US$37.7-39.4 billion compared with its previous outlook of US$36.6-38.3 billion.

**Should you buy Magna International on the dip?**

It was a good quarter overall for Magna, and it capped off a strong first half of the year for the company, in which its revenues increased 3.9% to US$19.06 billion and its diluted EPS increased 14.4% to US$3.01. As mentioned before, its second-quarter results also beat the consensus estimates of analysts polled by **Thomson Reuters**, which called for EPS of US$1.47 on revenue of US$9.47 billion.

With the earnings beat and raised outlook in mind, I think Magna's stock should have reacted by moving higher, and I think the decline represents a great buying opportunity for long-term investors for two fundamental reasons.

First, it's wildly undervalued. Magna's stock now trades at just eight times fiscal 2017's estimated EPS of US$5.76 and a mere 7.1 times fiscal 2018's estimated EPS of US$6.42, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 10.4. These multiples are also very inexpensive given its estimated 11% long-term earnings-growth rate.



Second, it has a great dividend. Magna currently pays a quarterly dividend of US$0.275 per share, representing US$1.10 per share annually, which gives it a 2.4% yield. A 2.4% yield is respectable, but it's very important to note that the company has raised its annual dividend payment for seven consecutive years, and its 10% hike in February has it on track for 2017 to mark the eighth consecutive year with an increase, which makes it one of the auto industry's best dividend-growth plays.

With all of the information provided above in mind, I think all Foolish investors seeking exposure to the auto industry should strongly consider using the post-earnings weakness in Magna International to begin scaling in to long-term positions.

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**Date**
2025/08/26
**Date Created**
2017/08/11
**Author**
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