



## Magna International Inc.: An Interesting Growth Story, But Not Worth the Risk

### Description

**Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) recently narrowly edged out 2017 Q2 analyst earnings expectations, sporting record revenue of US\$9.7 billion. The Canadian maker of auto parts simultaneously upgraded its 2017 sales forecast, providing investors with an interesting potential investment opportunity to consider amid negative industry-wide data for automobile consumption in North America.

I have previously looked at Magna, and was not impressed with the long-term fundamentals for the industry overall. While many of the concerns I had at the time have not dissipated (and are shared by a slough of analysts), Magna's growth profile has remained robust.

I can certainly understand an argument could be made for why Magna may not necessarily be a bad play in the near to medium-term. What I am concerned with, however, is how this company would potentially fit into a long-term investor's portfolio. In that regard, I just don't see enough upside to be able to warrant a positive recommendation at this time.

Magna eeked out an earnings beat on August 11, supported primarily from sales abroad. The company's domestic (North American) market saw immaterial growth year-over-year, indicating that the slowdown in consumption in the auto sector is beginning to be felt by auto parts makers and dealers alike. The largest growing geographic regions for Magna remain Asia, with a growth rate currently hovering in the double-digits, around 10% per year, and Europe, which saw sales increase meaningfully by 3% since the same quarter last year.

The increased company outlook for a revenue range nearly \$1 billion per year higher (from an initial range of \$36.6 to \$38.3 billion to the new range of \$37.7 to \$39.4 billion) is due in large part to the company's Asian operations which have outperformed analyst expectations. The primary market driving Magna's top and bottom line numbers in this case is not something tangible that many North American investors or even analysts can easily understand, but rather a market which is generally much more difficult to analyze and one which can be extremely volatile, particularly in market downturns or in times of poor economic growth.

## Bottom line

For a long-term investor considering Magna from a safety standpoint, I would consider other options in other sectors first before dumpster diving in the automobile sector. I believe that over the next few years, should consumption trends continue to be negative in North America, highly cyclical industries such as the auto market are likely to experience significant slowdowns, with not enough of the potential downside baked into current stock prices, in my opinion.

Stay Foolish, my friends.

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1. Dividend Stocks
2. Investing

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