



## Time to Buy This Stock That Has Soared 29% This Year?

### Description

**Magna International Inc.'s** ([TSX:MG](#))([NYSE:MGA](#)) stock has returned 29% this past year, despite the fact that automobile sales have been below expectations since March and are actually down year over year.

So, why is Magna's stock performing so well? The answer to this will help us decide whether there is still upside in the name or not.

Magna continues to post revenue and earnings increases, despite the slowdown in auto sales. In the latest quarter, the second quarter of 2017, revenue increased 2.6% to \$9.68 billion, and earnings per share increased 5% to \$1.48.

Clearly, Magna's revenue growth continues to outpace the industry. And looking further ahead, future growth will increasingly come from emerging markets, as the company has been investing there to increase its exposure to higher-growth markets.

Magna trades at a P/E multiple of 9.6 times with consensus expectations for EPS growth rates of 12.8% in 2017 and 11% in 2018.

The current dividend yield on Magna shares is 2%, and the company continues to have a low-debt balance sheet and the intention to buy back shares and increase its dividend in the near future.

So, while the company would be vulnerable to weakness in the macro environment, things are still looking good, as the company looks to access growth from emerging markets and return value to shareholders through the deployment of its excess cash.

**Linamar Corporation** ([TSX:LNR](#)) is another auto parts supplier that is also seeing strength. Its stock has a one-year return of 26%. But Linamar differs from Magna in that it is not a pure auto parts supplier.

In an attempt to reduce the cyclicity of the business, Linamar entered the industrial business, which is mostly made up of 100% owned Skyjack, a company that manufactures access and material handling equipment such as scissors and boom lifts

In the second quarter, Linamar exceeded expectations once again with a 6.6% increase in revenue and a 9.4% increase in EPS. Strong growth and margins characterized this quarter, as growth clearly also remains above industry levels.

The auto parts segment of the business grew 2.8%, and the industrial segment grew a whopping 24.5% as Skyjack continued to make strong market share gains in both its scissors machines and its boom lift equipment.

Linamar's margins are strong with an operating margin of 11.5% and a net margin of 8.7%. This compares to Magna at 7.8% and 5.9%, respectively.

I like Linamar for the fact that it is more diversified with 20% of its revenue coming from its industrial/Skyjack business. This has reduced the cyclicity of the business, or at least diversified the company's exposure to two separate businesses with their own cycles.

#### **CATEGORY**

1. Dividend Stocks
2. 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. Sharewise
4. Yahoo CA

#### **Category**

1. Dividend Stocks
2. Investing

#### **Tags**

1. Editor's Choice

**Date**

2025/08/15

**Date Created**

2017/10/03

**Author**

karenjennifer

default watermark

default watermark