



Could Magna International Inc. Be an Activist Target?

Description

While the allure of activist investors may not perhaps be what it once was, identifying opportunities that others may be seeing at any point in time has traditionally been a good investing strategy in the past due to the valuation increases many companies that are chosen as activist targets have seen in recent years.

An interesting thesis which has been floating around for some time now in Canada's finance sector is that auto parts giant **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) may be simply too cheap to ignore for an activist investor to step in and create value, given the discount the company receives relative to the valuation it may receive if it were broken up into its operation segments.

Now, before we assume that every company that is "cheap" or that may have underlying value that's not being appreciated by the market is an activist target, it should be noted that in many cases, a "discount" for a multi-faceted company such as Magna is warranted, given risks and headwinds that are (rationally or not) factored in by Mr. Market. The company also may be better off as a combined entity due to integration synergies which would otherwise be foregone should the company split up.

It should also be noted that not all companies that are perhaps underappreciated by the market, as a sum of their parts will suddenly experience massive valuation increases from breaking up a business into its business segments. Indeed, in some cases (like that of [Hudson's Bay Co.](#)), activist investors may have little impact on the ultimate direction of a company's stock.

That said, I find this argument intriguing, given Magna's size and scope within the auto sector. Warnings have continued to plague the auto sector overall, and while the "peak auto" argument is far from overblown, and NAFTA concerns have many Magna investors concerned, Magna's size and scope [globally](#) insulates the business somewhat from these potential headwinds.

Bottom line

Looking long term with Magna, I think investors will be interested in how the company's Asian segment performs relative to its North American or European operations, and given the trajectory of the company, I can see why the argument could be made that other long-term activist investors may take a

shot at Magna. I see Magna as a company that is somewhat insulated from the electric vehicle revolution, given the fact that electric vehicles will need parts, too.

At this point, Magna is still not cheap enough for me to explore it further; however, I suggest investors price out Magna and invest accordingly.

Are you looking for a company other than Magna with great long-term potential? The Motley Fool has five more just for you.

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