1 Toxic Canadian Value Trap I'd Short Today

Description

The TSX is full of wonderful opportunities these days. Everyone has something to be fearful about it seems, from Alberta's crippled oil patch, to the looming trade war with the U.S., Canada's severely overheated housing market or the lagging technological innovators on this side of the border.

Indeed, there's no shortage of fear-inducing issues today. If you're a contrarian with a long-term horizon, there are ample value plays. However, for every value play, there are several traps disguised as "value opportunities" that could destroy your wealth if you fall into the mindset of "just because it's cheap must mean it's undervalued."

Looking at traditional valuation metrics like price-to-earnings, price-to-book, or price-to-sales, this seemingly cheap stock is anything but "cheap," as I believe the businesses could be in a serious secular decline over the long term, and President Trump's recent tariffs could derail the business over the near term.

Enter **Magna International Inc.** (TSX:MG)(NYSE:MGA), which boasts a very attractive 9 price-to-earnings multiple and is just down ~9% from all-time highs. Although the stock appears to be picking up momentum while still maintaining a ridiculously cheap multiple, it has absolutely horrifying medium- and long-term headwinds that I believe will cripple the company's ability to grow its earnings over the next decade and beyond. In the meantime, Magna has other issues that I believe will send the stock much lower as we head into the latter part of 2018.

First, Magna International stands to be a huge loser amid Donald Trump's steel and aluminum tariffs. If you think these tariffs are more than a negotiation tactic, you should avoid Magna stock like the plague. Kevin O'Leary recently stated that such tariffs would "dismantle the logistics of the automotive industry." The stock has mildly sold off, but I think a much bigger plunge is warranted given Trump's protectionist tone and how uneconomical the auto part manufacturing business could become.

Second, we're entering an era in which the average person won't be a vehicle owner. Autonomous vehicles (AV) are the future. These vehicles will be shared, as it will become uneconomical for the average person to own their own vehicles. Sure, some people would still want to own their own vehicle, but they'll eventually become a rich minority. UBS predicts that by 2035, urban car ownership will fall by 70%. That's a long-term headwind that'll obliterate Magna, but it's through no fault of management. Rather, Magna will become a victim of technological innovation.

Simply put, Magna is a clunker and is probably one of my top short ideas in today's market. It's a cheap stock that's going to get a lot cheaper. If you're a short-seller, I'd get my position in today. Otherwise, just ignore the stock, as there's no value to be had here despite attractive valuation metrics.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/24
Date Created
2018/03/08
Author
joefrenette