Better Buy: Magna International Inc. vs. Linamar Corporation

Description

While auto sales are widely expected to soften this year, the fact is that we are in a long period of record auto sales and prosperity for auto companies.

The original equipment manufacturers (OEMs), such as **Ford Motor Company** (NYSE:F), as well as the auto parts suppliers, such as **Magna International Inc**. (TSX:MG)(NYSE:MGA) and **Linamar Corporation** (TSX:LNR), have been reaping the rewards.

Magna has a one-year return of 17.9% as a result of this booming environment.

Magna has been firing on all cylinders, as the company continues to outpace industry growth rates, margins continue to improve, and the balance sheet leaves it well positioned for future growth.

Strong cash flow generation in the fourth quarter of 2017 led to a 20% increase in the dividend and more share buybacks, continuing the return of cash flow to shareholders.

Future growth will increasingly come from emerging markets and “clean” offerings, as the company has been investing to increase its exposure to these higher-growth markets.

On this note, Magna announced a joint venture with an automotive company in China to produce electric powertrain systems. This follows the company’s announcement that it is teaming up with BMW and Intel Corp. to develop a self-driving system for the global vehicle marketplace by 2021.

Linamar has a one-year return of 17.7% and is soaring 7.7% at the time of writing, as the company released better-than-expected results on March 7.

Linamar differs from Magna in that it is not a pure auto parts supplier.

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

Linamar has also made efforts to diversify its business by increasing its product offering (with a focus on vertical integration), its geographic reach, and by attempting to get new customers for its existing products (energy and industrial OEMS).

The company has had more than 150 launches in 2014, representing more than $550 million of additional business, and has expanded its product offering to become increasingly vertically integrated.

Linamar has been outperforming on a consistent basis and maintains industry-leading margins.

Fourth-quarter results once again beat expectations, as the company posted a 17% increase in sales and an 11.8% increase in earnings. Breaking this down, the auto segment (87% of sales) saw an 11.1% increase in sales, while the industrial segment (13% of sales) saw a 43.9% increase in sales, highlighting the benefit of the company's diversification strategy.

Looking at dividend yields for both companies, Magna's yield currently stands at 2.5%, while Linamar's is below 1%.

If auto sales have peaked, Linamar is the better stock to own, as it will fare better given its diversification, but both companies have a good track record of shareholder value creation.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:F (Ford Motor Company)
2. NYSE:MGA (Magna International Inc.)
3. TSX:LNR (Linamar Corporation)
4. TSX:MG (Magna International Inc.)

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