Why Magna International Inc. Got a ~7% Lift

Description

Magna International Inc. (TSX:MG)(NYSE:MGA) stock appreciated almost 7% on Thursday. The pop was triggered by the news that the Canadian auto parts leader has formed a multi-year partnership with Lyft, a fast-growing ride-share company in North America, to co-develop self-driving cars. Magna will also be investing $200 million in Lyft.

Magna's press release indicated that the self-driving system "is expected to be market ready over the next few years and can be deployed across the industry through Magna."

This will impact future growth because Magna is the largest automotive supplier on Earth! Magna has 335 manufacturing operations and 96 product development, engineering, and sales centres in 28 countries.

Recent results

In 2017, Magna achieved record sales of $38.9 billion, which was 7% higher than its sales in 2016. As well, its diluted earnings per share increased 14% to $5.90. Its cash from operations also hit a record high of $3.3 billion.

Magna treats its shareholders well

Magna generates ample cash to buy back shares and grow its dividend. In the last few years, the company reduced its share count by ~13%. It wasn't a bad use of capital because the company was undervalued most of the time.

Magna has been growing its dividend for eight consecutive years. It just hiked its dividend by 20% in the first quarter. Its three-year dividend-growth rate is 13.1%. So, the fact that Magna raised its dividend at a much higher rate recently indicates management's confidence in the future of the company.

The new dividend implies a payout ratio of ~22% of 2017's diluted earnings per share. Historically, Magna has maintained a low payout ratio. So, shareholders should expect the company to continue growing its dividend at roughly the pace of its earnings-per-share growth.

Analysts estimate that Magna will grow its earnings per share by 12-15% per year for the next three to five years. To be conservative, let's say that the company can grow its dividend by 10-12% per year for the next few years.

Investor takeaway

Self-driving cars already exist. The Lyft investment and partnership could pay off handsomely for Magna and its shareholders over the next few years.

However, there is huge competition in the space. Other companies are also developing self-driving cars and have put driverless cars on the road already. Moreover, the Magna-Lyft partnership still requires regulatory approval.

So, cautious investors should consider Magna when it trades at a bigger margin of safety, perhaps a dip to $65 per share or lower for a starter position.

That said, despite the pop, Magna still trades at a reasonable multiple and offers a yield of 1.8% at below $74 per share. So, if you really like the company, you might nibble some shares in this double-digit-growth company.

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