

This Automotive Parts Supplier Should Be in Every Portfolio

Description

Most investors have heard of **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), but few realize the incredible potential for growth that Magna offers.

Here's a look at Magna and why this behemoth of industry belongs in your portfolio.

Meet Magna, a global leader

Magna is one of the most diversified automotive parts suppliers on the planet, with over 90 product, engineering, and sales locations and 340 manufacturing centres spanning 28 countries, including the growing automotive markets in South America and China.

The diversified nature of Magna also allows the company to weather potential downturns in one market while enjoying growth in others.

Impressive quarterly returns

Earlier this month, Magna announced first-quarter results for fiscal 2018 that continued to showcase the strength and potential the company offers.

Total sales for the quarter ended on March 31 amounted to US\$10.79 billion, thereby surpassing the US\$8.90 billion reported in the same quarter last year.

Net income for the quarter came in at US\$660 million, or US\$1.83 per share, handily beating the US\$577 million, or US\$1.51 per share reported in the same quarter last year.

The impressive results led Magna to increase its annual forecast for net income to fall between \$2.4 billion to \$2.6 billion, up from the previous \$2.3 billion to \$2.5 billion.

Perhaps the most impressive figure from the quarterly announcement was Magna CFO Vince Galifi noting that the company expects over \$6 billion in free cash flow over the next two years, thanks to higher revenues and lower capital expenditures.

Impact of a revamped NAFTA — positive or negative?

The impressive results come at a time when investors and analysts are cautiously looking toward the ongoing NAFTA renegotiations, which could significantly reshape the landscape for the current integrated supply chain that benefits all three NAFTA members.

The U.S negotiating team is pushing for an increased amount of content in vehicles to be exempt from import duties. While the 75% content that the U.S. is seeking may seem like a small increase over the 62.% in place today, the impact of such a change could be substantial for the automotive sector.

Magna is the already the largest automotive parts supplier in the region, so if there was a mandate in place for increased North American parts, Magna would benefit the most. The flip side of this argument is that the cost of each vehicle would increase, which could hurt automotive manufacturers and eventually Magna.

Why your portfolio needs Magna

As an investment option, Magna checks all the boxes that prospective investors look for. The company is diversified into multiple markets and has a growing list of customers that will continue to fuel growth for years.

That opportunity extends to the growing [autonomous driving](#) segment, where Magna has made significant investments into R&D recently, including a US\$100 million investment this year to develop technologies related to autonomous driving, which will be followed up with another US\$100 million in each of the next two years.

Additionally, Magna offers investors a solid quarterly dividend with a yield of 2.03%.

In my opinion, Magna remains an excellent long-term opportunity for investors seeking a [growing stream of income](#) and growth.

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