Should You Buy the Dip in Magna International Inc. (TSX:MG)?

Description

Magna International Inc. (TSX:MG)(NYSE:MGA) stock has plunged 9.7% over the past month as of close on July 6. The company released very positive first-quarter results in May. It posted record quarterly sales of $10.79 billion and record quarterly diluted earnings per share of $1.83. Shares are still up 8.3% in 2018. Is Magna a buy-low opportunity today?

It has been a mixed bag for Magna after the release of its first-quarter results. The most troubling development since its earnings release has been the deterioration of global trade relations, in particular between the United States and Canada. There is fear among Canadian leadership that U.S. President Donald Trump could move forward with auto tariffs in the coming months. This could deal significant damage to the Canadian auto sector.

The Canadian Automobile Dealers Association (CADA) released a statement warning the government against retaliatory measures if the White House follows through on its threat. CADA's Chief Economist Michael Hatch said that this was an "existential" crisis for the industry. Hatch theorized that the threat level is comparable to the financial crisis.

Magna leadership has also warned about the repercussions of auto tariffs on the industry at large. "The imposition of tariffs or other trade barriers on imported automobiles and/or automotive parts would weaken the U.S. economy and threaten to undermine the entire U.S. automotive industry, putting global competitiveness at risk and making the U.S. a less attractive place to invest," said Chief Marketing Officer Jim Tobin in a recent filing.

Sharp warnings have come from other nations and industry leaders within the United States. **General Motors Company** leadership warned the administration that the move would eliminate jobs and represent a $45 billion tax on U.S. consumers. The European Union has threatened retaliatory tariffs worth $300 billion if the Trump administration pursues auto tariffs on the economic bloc. The EU exported over $40 billion of cars to the United States last year.

The escalating trade war between the U.S. and China could indicate that the Trump administration is unlikely to take a dovish turn in its spat with Canada and other allies. This represents a serious threat to Magna, which has over 25,000 employees in the United States spread across 11 states.

Trade turmoil has cast a dark cloud over an otherwise positive long-term picture for Magna. In June the company announced a partnership with China-based Beijing Electric Vehicle Co. Ltd., which will result in a joint venture at an existing facility in Zhenjiang. Production is expected to roll out in 2020. China is making an aggressive push into the electric vehicle market, which aims to have 20% of sales of automobiles classified as “new energy” by 2025.

This deal gives Magna access to this market with massive potential going forward.

Should you buy the dip today?

It may be wise for investors to wait for a decision on auto tariffs from the Trump administration before moving forward. The move, which is looking increasingly likely, could deal even more damage to the stock in the near term. Looking long Magna is still a great hold, and the next few months could provide good opportunities to stack at low prices.

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