



When Will the Auto-Parts Makers Be a Bargain?

Description

Auto-parts maker stocks have [dipped meaningfully](#) partly due to tariff concerns under the Trump administration. **Magna International** ([TSX:MG](#))([NYSE:MGA](#)) stock has retreated about 17% from its recent high, **Linamar** ([TSX:LNR](#)) stock has declined about 27%, and **Exco Technologies** ([TSX:XTC](#)) stock has declined about 10%.

Are the auto-parts maker stocks really cheap?

At about \$71 per share, Magna trades at a price-to-earnings multiple (P/E) of about 8.5. At under \$55 per share, Linamar trades at a P/E of roughly 6.2. At about \$9.20 per share, Exco trades at a P/E of about 9.3.

These stocks all seem pretty cheap. However, it's important to note that the auto-parts suppliers have historically traded at low multiples. Magna's long-term normal P/E is about 9.3, Linamar's long-term normal P/E is about 10.5, while Exco's long-term normal P/E is about 10.6.

On the surface, it seems Linamar is the best value. However, the stock's long-term normal P/E is lifted by the company's incredible growth from 2012 to 2016, during which its earnings per share (EPS) more than tripled. This is abnormal growth that's unlikely to occur again.

It'll be more rational to compare the companies' potential growth rates to their current multiples to see which is the cheapest. For the next few years, Magna is estimated to increase its EPS at a rate of 11%, Linamar is estimated to increase its EPS at a rate of at least 9.5%, Exco is estimated to increase its EPS at a rate of about 10%.

It turns out Linamar is the cheapest of the three with the lowest PEG ratio of about 0.65.

Which of the three is the best bet?

Oftentimes, buying the cheapest isn't the best. Which of the three auto parts suppliers is the best bet? Magna has the largest scale, and its stock is holding up the best. It's also not an expensive stock with a PEG ratio of about 0.77. So, Magna is probably the best bet. It also offers a safe dividend yield of

about 2.4% to help boost returns.

When will the auto-parts makers be a bargain?

For a bigger margin of safety, interested investors can begin scaling in to Magna in the low \$60s and Linamar in the high \$40s.

Exco stock has been in a downward trend for a prolonged period of time. So, interested investors are better off waiting for it to break that trend before buying. However, it does compensate shareholders with a safe, competitive dividend yield of 3.7%.

Investor takeaway

[Magna](#) is probably the best bet of the three, as it has the largest scale, and its stock is holding up the best. However, Linamar would be more of a value play and, therefore, has more price appreciation potential.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)
4. TSX:XTC (Exco Technologies Limited)

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