Should You Buy Magna International (TSX:MG) or Tesla (NASDAQ:TSLA) Stock?

Description

It seems a certain electric vehicle (EV) producer just can't stay out of the papers at the moment: in more headline-grabbing news, the CEO of **Tesla** (NASDAQ:TSLA) recently expanded ownership by snapping up around $10 million worth of stock in the company. But is it a good buy, or does one Canadian alternative offer greater value? Let's take a look at the data and see which of these two big car stocks is the stronger play right now.

Should you gamble on this media darling?

A highly volatile share price has led to Tesla's current discount by 6% compared to its future cash flow value, while in terms of market fundamentals, negative P/E and PEG ratios leave only a P/B of 12.7 times book to show that this is indeed still an overvalued stock, regardless of that share price discount.

While you won't get paid dividends for holding stock in Tesla, that expected growth should mean that there will be plenty of upside to enjoy down the road. It should also be noted that Tesla outperformed the U.S. auto market in the past year. Progress is definitely being made, and recent news of increased battery cell production coincides with an analyst upgrade from a hold to strong buy signal.

Return on equity was negative for the past year, dropping the overall quality of this stock, and a comparative debt level of 201.2% of net worth makes this look like a dodgy stock to hold long term; however, a 65% expected annual growth in earnings means that it seems a good choice for growth investors. Indeed, an extremely volatile trend in prices may make this one for momentum investors who don't mind a time-intensive stock that requires minute-by-minute attention, though it's certainly not one for someone looking for low-maintenance stocks to buy and hold long term with minimum monitoring.

Or stick with this Canadian competitor?

There is no denying that **Magna International** (TSX:MG)(NYSE:MGA) is one of the best auto stocks around at the moment. It's weathered metals tariffs and faced down an uncertain market buffeted by a broader protectionist threat. Could such stressors explain why this attractive stock is discounted by 17% compared to its future cash flow value at the moment? With a P/E of 7.3 times earnings, PEG of

1.6 times growth, and P/B of 1.5 times book, that’s a tasty undervaluation, whatever the cause.

A 4.4% expected annual growth in earnings doesn’t touch Tesla’s expected growth, though a dividend yield of 2.73%, good ROE of 21% last year, and much lower debt at 37.4% of net worth make it a healthier stock all round. A current downward trend in share price after a summer peak means that this stock could also be of interest to some momentum investors.

The bottom line

The two stocks listed here offer very different investment strategies. Snapping up Tesla is your standard capital gains play, while buying shares in Magna International is a decent passive-income maneuver. Since they operate primarily in two distinct markets (three, via Magna International, if you count that significant Asian partnership) you could potentially buy both and still have some diversification.

CATEGORY

1. Dividend Stocks
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2. NYSE:MGA (Magna International Inc.)
3. TSX:MG (Magna International Inc.)

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