Can This China-Linked Dividend Stock Beat the Market Downturn?

Description

A one-year low for the U.S. stock markets after the Fed hitched interest rates has sent tremors through other exchanges, dismaying investors who thought they were at least halfway certain about all the uncertainties the future held. The TSX index has behaved accordingly, with the predicted 2019 bear market potentially having arrived just in time for Christmas.

So, where is safe after this curve ball? The following auto stock has weathered all sorts of adversity this year, with metal tariffs and other direct threats to the auto world piling on to wipe value from pretty much anything with wheels. Today, it emerges as a China-linked stock that could defy the U.S.-led downturn, while still offering dividends as well as the promise of long-term capital gains.

Magna International (TSX:MG)(NYSE:MGA)

A one-year past earnings growth of 13.9% is pretty impressive for a company in an industry that's taken such heavy fire over the last year. That this hardy ticker also managed to beat out its own five-year average past earnings growth of 7.6% is doubly impressive. A slightly too-high PEG of 2.6 times growth may make Magna International seem a little pricey, but other value indicators suggest otherwise, as we shall see.

More inside selling than buying in the last 12 months is something of a concern, but optimists may want to see this as industry fear driven by the threat of rising auto tariffs. Comparative debt of 40.3% of net worth is high, but not alarmingly so. Value-wise, the TSX index holds few good-quality stocks this attractively valued: a P/E of 6.5 times earnings and P/B of 1.4 times book pair temptingly with a decent dividend yield of 2.91%.

Talking of quality, last year's ROE of 21% is great to see if you're looking for wise use of shareholder funding, while a 2.5% expected annual growth in earnings feels somewhat conservative but is at least positive in the face of global economic uncertainty. While there are higher-quality stocks on the TSX index, and certainly ones with greater momentum, the data collated here shows that Magna International is a pretty good all-rounder.

A strong pick for forward-thinking investors

Magna International shares have gained 1.42% in the last five days, showing that investors may well be turning to stocks that are strongly tied to economies other than the U.S. With emerging economies having the potential to outrun the West in the latter half of the decade, perhaps Asia is a good place to put money — and really smart money could be well hidden in the auto industry right before it undergoes a refuel for the electric vehicle market.

Magna International's beta of 1.29 indicates lower volatility than the industry, while its share price is discounted by a whopping 22% compared to its future cash flow value. This latter datum is due in large part to a very volatile year made all the more turbulent by metal tariffs and direct threats to the auto industry; the irony is that this era of protectionism has opened up value opportunities for progressively minded investors.

The bottom line

While an auto ticker may seem an odd choice for a good stock to hold in bear market, Magna International is a special case. It's one of the strongest Sino-Canadian assets out there, and its data is impressive. Going through the value, quality, and momentum indicators above, this gem of the TSX index is a moderately strong buy today.

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