2 Reasons Why Magna International (TSX:MG) Is a Buy

Description

The auto parts and equipment manufacturing industry is currently going through a bit of a transition. As the demand for electric cars increases, it is up to companies within this sector to keep pace with emerging trends. Corporations that fail to keep up with the demands of the industry will literally pay for it, and so will their shareholders.

Last June, **Magna International** (TSX:MG)(NYSE:MGA) struck a deal with China's largest electric vehicle maker: Beijing Electric Vehicle Co. This deal will extend Magna's reach into a very lucrative and growing market.

Magna is positioning itself to take advantage of its industry's new demands, but should the Ontario-based automaker be on your radar? I believe it should, and below are two reasons why.

Stellar financial results

With a market cap of $15.2 billion, Magna is one of the largest automobile parts manufacturers in the world. Merely being a recognized brand in its industry is, of course, not necessarily an indication of strong financial performance. Fortunately, Magna's financial results speak for themselves.

Magna's third-quarter financial performance was impressive. The company set records for sales and earnings per share, which were up 9% and 17% year over year, respectively. Magna's net income also increased by 8%. The company's revenue increased throughout the entire range of its business segments. Seating systems, power and vision, body exteriors, and complete vehicles increased by 6%, 5%, 6%, and 50%, respectively.

Magna's recent performance hardly comes as a surprise. The company has been steadily improving its financial results for the past few years. Sales, net income, earnings per share, dividends per share, and other important figures have all been on a general upward trend.

Magna currently offers a dividend yield of 2.81%, with a payout ratio of 18%. These comparatively low figures indicate that the automaker can sustain constant dividend increases. Magna's free cash flow also keeps growing, and the company has been returning money to shareholders by way of a buyback program. During the third quarter, Magna returned $629 million to shareholders through share repurchases and dividends.

Magna is currently undervalued

Magna’s share price reached an all-time high of $86 in June before succumbing to global economic uncertainty surrounding trade relations, then racing down to its current price of $61 at the time of writing. With a price to earnings of 6.71, a price to earnings growth of 1.6, and a price to book of 1.96, Magna may currently be trading at a discount.

Analysts expect the company’s earnings to grow by about 4% annually, which is not outstanding, but Magna’s share price will keep climbing as the global stock market recovers. Investors would be wise to take advantage of Magna’s current situation.

The bottom line

Magna is not without its detractors. Some analysts view the company’s wide array of products as a liability. Whereas most manufacturers focus on one or a few specialized areas, Magna’s range of manufacturing services is much wider than that of its competitors.

While this strategy risks lowering the quality of Magna’s products, I believe the automaker has demonstrated its ability to perform well despite this shortcoming. After all, Magna has a sizable and growing list of clients with which it has developed strong relationships.

Thus, all things considered, I believe Magna is currently a buy.

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