How Cheap Are the Auto Supplier Stocks?

Description

Bargain hunters looking at auto supplier stocks may think that they're very cheap. In reality, though, it turns out they normally trade at low multiples — perhaps due to the cyclical nature of their businesses. So, they may not be as cheap as investors may think.

Lately, the auto part suppliers have been trading at even bigger discounts, which has likely to do with the shift to electric vehicles, which will reduce the demand and even cause the closure of certain existing auto-part plants. Simultaneously, the shift will require auto part suppliers to invest more to participate in the shift.

Magna offers a sustainable dividend

Magna International (TSX:MG)(NYSE:MGA) has a leadership position as a global automotive supplier. It has been in the business for more than six decades, and it's the only auto supplier that builds complete vehicles.

The stock has always been cheap with a long-term normal price-to-earnings ratio (P/E) of about 10. However, lately, Magna stock has been trading at an even bigger discount. Specifically, at under $67 per share, it trades at a blended P/E of about 7.5.

Magna has increased its dividend every year since 2011. Its five-year dividend growth rate is 15.2%, which is top notch in the industry and quite good in the dividend growth stock space. Its last dividend hike was 20%, higher than the five-year rate, another good sign. Additionally, its payout ratio is sustainable at 20%.

Investors should note that Magna is taking part in the technological revolution in the auto industry with a focus on electrification and autonomy. Its recent return on assets and return on invested capital were 9.3% and 16.4%, respectively, which were stellar.

Linamar is very cheap

Linamar (TSX:LNR) is a global manufacturing company with two business segments: the transportation segment and the industrial segment. Within the business segments, Linamar operates via five groups: machining and assembly, light metal casting, forging, skyjack, and agriculture.

It has 60 manufacturing facilities and eight research and development centers in 17 countries, including North and South America, Europe, and Asia.

Like Magna, Linamar has a low long-term normal multiple. Its long-term normal P/E is about 10.5. At $48 and change per share, Linamar seems to be trading at a ridiculously steep discount — a blended P/E of about 5.5.

The company agrees the stock is significantly undervalued; at the end of January, when the stock traded at levels that were 5% higher, it announced to buy back up to 10% of its public float.

Linamar's recent return on assets and return on invested capital were 8.7% and 11.9%, respectively, which were decent. It offers a yield of about 1%.

MG data by YCharts. The one-year price actions of Magna and Linamar.

Should you buy Magna or Linamar?

The **Thomson Reuters** analysts' 12-month mean targets on the stocks represent about 28% upside for Magna and about 42% upside for Linamar. Some investors would choose to buy cheaper Linamar. However, Magna is the indisputable leader in the auto supplier space. The stock offers a sustainably growing dividend with a starting yield of 2.6%. Moreover, it has been holding up better than Linamar. So, conservative investors should choose Magna over Linamar.

No matter which stock you choose, you might want to see if the stocks will retest and hold at their December lows before considering a purchase.

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