



Want to Bet on Self-Driving Cars? Buy Magna International Inc. (TSX:MG) Stock

## Description

Founded more than 60 years ago, **Magna International** ([TSX:MG](#))([NYSE:MGA](#)) is one of the largest global suppliers to the automotive industry.

In 1957, the company began by supplying **General Motors** with basic parts. Today, Magna International designs and manufactures everything from seats to powertrains. In fact, it's the only auto supplier in the world that builds complete vehicles.

Since 2006, shares have returned more than 230% — roughly 10 times the return of the TSX index. Yet since the summer of 2018, Magna International stock has dipped nearly 20%.

Is this a limited-time opportunity to buy a market-leading company with a proven history of success?

## Electrification could change everything

The first thing investors need to understand is that Magna International is massive.

According to the company, its products can be found in more than half of all vehicles today. With 348 manufacturing hubs in 28 countries and 174,000 employees, there is little that Magna International isn't equipped to handle. That's why major industry-wide shifts are so attractive; it's almost a certainty that the company will take a big slice of the pie.

For example, Magna International has invested to position its powertrain segment to capitalize on the transition to electric, particularly in the world's largest markets. For example, the company created a joint venture with Hasco to deliver integrated e-drive powertrains directly to the Chinese market.

By 2030, electric vehicles are expected to represent 23% of Chinese automobile production, making this opportunity one of the biggest in Magna International's history.

## Don't forget about self-driving cars

Alongside electrification, autonomous vehicles represent yet another major growth platform for Magna International. It's already won a contract with BMW for its solid-state LiDAR system, and management is already quoting additional customers on the vision-based ADAS technology.

Self-driving cars will not only change consumer buying behaviour but also how they travel altogether. Car-sharing programs like Lyft and Uber are expected to use autonomous technologies heavily. That's why Magna International partnered directly with Lyft to develop self-driving software. Both companies now have employees based in the same office in Palo Alto, California.

By entrenching itself early into major shifts in automobile technology, Magna International is ensuring it can win wherever technology heads.

## Get ready for piles of cash

From 2019 through 2021, management expects to generate free cash flow of at least \$6.5 billion — that's nearly 40% of its current market capitalization. Annually, that results in a free cash flow yield of around 12.6%.

If the market doesn't reward the company's fundamentals, management has insisted they will turn to dividends to return cash to investors. In its latest investor presentation, the company reiterated that "dividend growth remains a priority."

From 2010 to 2018, Magna International grew its payout by 15% annually. Over the next five years, expect that pace to continue. Today, the dividend yield is around 2.8%. By 2025, investors could be getting an annual yield of 6% or more based on today's cost basis.

If a recession hits, Magna International will no doubt be temporarily impacted due to lower global vehicle sales. However, the shift towards self-driving cars and electrification will happen over the next decade regardless of the global economy.

Now trading at a historically high free cash flow yield, Magna International looks like a long-term buy-and-hold winner.

### CATEGORY

1. Dividend Stocks
2. Investing

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