# What to Expect from Automotive Stocks in 2019

## Description

**Magna International** (TSX:MG)(NYSE:MGA) is a global automotive supplier, operating in North America, Europe, and Asia. The company produces body, chassis, seating, powertrain, electronic, among other automobile components.



Automakers have been showering Magna with accolades lately, bestowing preferred supplier status on the company. Unfortunately, this supplier struggles in an industry with a low-profit margin and eroded competitive advantage. The only hope the automotive industry has in a revival is increased scrutiny over supply chain security and due diligence requirements.

The trade war between the U.S. and China is unlikely to help the auto supplier out of these woes. Based on data from Magna's most recent balance sheet, it may be a little too late to help the struggling automotive supply industry.

## Magna increases dividend, failing to attract investors

In May 2019, Magna increased the dividend payout from $0.365 to $0.490 per share — growth of 34.25%. As of July 19, 2019, the price of Magna's stock had risen insignificantly to $63.06, just a $3.84 gain from where it was trading in May. If the company had been doing well enough to warrant a substantial dividend increase, the stock's price should have surged along with it.

The truth is that the stock's value had been declining before the dividend increase. Thus, Magna's decision to raise the dividend had more to do with increased liquidity risk than profitability gains.

Overall, Magna has lost 23% of its value since trading in the high $70s in 2018. Magna's current dividend yield of 3.06% fails to cover the significant dip in market value over the past year. The moral of the story is that TFSA investors should ensure capital losses have not exceeded the dividend yield historically.

## Magna's long-term debt surges

The quarter ending March 31, 2018, Magna reported an increase in long-term debt of $1.54 billion, which is 7.6% of the company's $20.14 billion market cap. When a company begins accruing a large amount of debt, the stock price tends to plunge with the added risk. Magna is proving to be the rule rather than the exception.

The debt is not necessarily a red flag as long as it is sustainable. In the case of Magna, the quarterly change in debt is about 1.73 times as large as the change in net receivables. When debt grows faster than income, TFSA investors should consider staying away from the stock, as it is likely that the stock price is on a downward trajectory.

## Foolish takeaway

TFSA investors do not have to gamble on the low-profit margins in manufacturing to earn a return. Investors are better off buying into TSX insurance stocks or banking than the failing auto industry. These industries offer both high dividends and the promise of capital gains.



Despite U.S. president Donald Trump's attempts to artificially revive North American manufacturing dominance, Canadian auto suppliers cannot compete with low foreign wages.

Moreover, industries such as manufacturing suffer from a significant skills gap in North America. Millennials and Generation Z lack respect for skilled trades and would prefer to go into business, health, or social science. Manufacturing trades would need to go through a significant branding shift to compete for support from today's younger workforce.

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