TFSA Investors: This Stock Could Be 1 of the Best Investments of 2020

Description

Despite slower sales in the second quarter, leading auto parts manufacturer **Magna International** (TSX:MG)(NYSE:MGA) continues to outpace the rest of the auto sector by a wide margin.

Thanks to some major investments that have helped to make operational improvements over the past couple of years, this is a company that's now enviably positioned to take advantage of forthcoming growth in electrification, automation, smart mobility and faster-growing emergent markets — all of which should hopefully contribute to above-average returns for the company's shareholders.

Over the past several years, management at Magna has been making the often-difficult decision to forgo short-term performance in lieu of a more favourable outlook towards the company's long-term viability.

It's a difficult decision, and one that managers are often loath to make, because they tend to come under criticism from analysts and investors who question why the company perhaps is lagging its peer group in terms of reported numbers and performance.

In the case of Magna, the most notable consequence from its ongoing investments in new technology and operational improvements have been lower EBIT or operating margins.

Lower margins have, for the most part, prevented Magna from keeping up with the broader market over the past several years, with the company's share price on the TSX Index virtually unchanged from where it traded back in the middle of 2015.

But with those investments now beginning to roll off, and the company feeling as though those investments should help it to gain a competitive advantage in the marketplace, now might be the best time in years for investors to initiate (or add to) a stake in this 2.99%-yielding stock.

Magna made a calculated decision to get out in front of the changes that it felt it would need to make to be able to continue to compete over the next decade (and longer).

Meanwhile, those competitors that, for whatever reason (fears of negative investor or analyst sentiment, maintaining pace of earnings growth, etc.), forwent those expenditures are now arguably finding themselves struggling to keep up.

With sales growth in the auto sector already showing signs of slowing, those companies may see an even more exacerbated decline in their operating (and share price) performance as a result compared to what things may have looked like had they followed MGA’s lead a few years ago.

Magna, meanwhile, despite lowering its forward guidance for 2019 (albeit only slightly), is expecting to generate strong free cash flows this year (somewhere in the neighbourhood of US$2 billion, give or take) with that trend expected to improve over the coming next couple of years.

That should give cause for optimism with respect to the prospect of continued increases to the company’s dividend, which it already raised by more than 10% earlier this year.

Foolish bottom line

Because of its participation in the auto sector, there’s always going to be the risk that, despite a strong to very strong outlook for the company, its share price could get caught up in the volatility of the broader markets.

But looking ahead to 2020 and beyond, this is a stock that could prove to be a core holding, and a rewarding one at that, for dividend-growth investors.

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jphillips