Forget Tesla — Bet on This Canadian Auto Stock Instead!

Description

The only consistent winner in a gold rush is the supplier of pick-axes. The steady electrification and transformation of automobiles is proving to be such a gold rush for emerging auto companies like Rivian and **Tesla**.

Legacy giants, meanwhile, have been scrambling to get involved as they face tougher regulations and increased competition.

However, the entire automobile sector is suffering from a chronic lack of profitability as the war heats up. Legacy automakers have an average gross margin of 8% to 10%, while net margins are razor-thin at 1% to 2%.

Luxury car-makers and fully electric producers don't fare much better. British luxury giant Aston Martin lost $2.7 million on sales of $252.98 million last year. Meanwhile, Tesla lost $408 million on $6.3 billion in revenue in its most recent quarter alone.

These grim figures should explain why it's so difficult for investors to pick winners and losers in this industry as it crawls through two revolutions — electrification and self-driving — over multiple decades.

However, the billion-dollar global automotive industry isn't a cash-burning fire pit for everyone. Parts suppliers and contractors seem to be winning regardless of the industry's long-term struggles.

Ontario-based **Magna International** (TSX:MG) is a prime example. The company earned US$595 million pre-tax on US$10.1 billion in sales in its most recent quarter.

Although sales are flat and costs are up over the past year, which has been a difficult one for the global auto sector, the company is still relatively profitable (5.9% pre-tax margin) and is returning cash to shareholders.

The stock currently offers a 2.78% dividend yield and the company spent US$409 million over the most recent quarter.

As the third-largest auto parts supplier, Magna's illustrious client list already includes major names like **Toyota** and Jaguar. The company also has long-term deals with **BMW** and **LYFT Inc** to supply LIDAR systems and software that enables self-driving. **Google's** Waymo has partnered with Magna to produce self-driving units at a Michigan factory.

Tesla isn't on the client list, but there are whispers of a potential partnership for the company's upcoming models if it continues to face "production hell."

Auto parts, like brakes, seats and body exteriors will always be needed, regardless of how the cars of the future look. As a contractor, Magna can easily add new technologies such as LIDAR sensors and battery trays for electric vehicles to its line-up.

In other words, Magna's fluidly evolving and relatively profitable business model makes it a better bet than any individual auto stock, including Tesla.

Bottom line

Tesla's meteoric rise over the past decade is a sign that the global automotive industry is already being disrupted. However, this industry was already operating with intense competition and slim margins. With the move toward automation and electrification, the industry could be in for a shake-up that lasts decades.

Meanwhile, parts suppliers like Magna will remain unaffected and perhaps even grow. The company's flexibility and sizable margins should help it come out on top regardless of who wins the automotive wars. I'd keep a close eye on it moving forward.

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