Forget Tesla! This Canadian Self-Driving Stock Is a Better Bet

Description

Tesla's stock price is at an all-time high. What started out as Elon Musk's pet project 20 years ago is now the most valuable automotive company on the planet. Part of the reason the company is worth more than any other auto giant is because of its technology. Investors believe Tesla's self-driving features give the company a competitive edge.

However, Tesla isn't the only automaker deploying billions of dollars into our self-driving future. **GM**, Google, **Volkswagen**, and **Uber** all have similar ambitions. All their ambitions rely on auto parts developed by a Canadian company that's flying under the radar.

Magna International

Aurora-based **Magna International** (TSX:MG)(NYSE:MGA) is one of the oldest and largest part suppliers to the global automotive industry. With 348 manufacturing hubs in 28 countries and 174,000 employees, Magna commands a significant portion of the global auto sector. In fact, *Bloomberg* once called the firm the "world's largest contract manufacturer of vehicles."

This position in the auto sector hasn't been beneficial in recent years. With the ongoing trade war between the world's two largest economies and the shifting preferences of millennials away from car ownership, global sales of vehicles have been declining. This has had a noticeable impact on Magna's bottom line and share price in 2019.

However, the company's investments in the future of automobiles has continued unabated.

Over the past few years, Magna has deployed hundreds of millions of dollars into its self-driving and electric vehicle research. The company has formed an alliance with the world's largest chip maker, Germany's leading car manufacturer and America's second-largest ride-sharing company to create a holistic self-driving platform.

This platform could include critical technologies, such as a solid-state LiDAR system developed by Isreali startup Innoviz Technologies and vision-based sensors that detect traffic lights, pedestrians, or driver drowsiness that was developed in-house. In other words, Magna is creating the tools technology giants will need to fulfill their self-driving ambitions over the next few decades.

Developing and supplying these parts should involve less risk and higher margins, which should ultimately be reflected on Magna's balance sheet. I believe investors may have overlooked this, which makes the stock undervalued.

Valuation

As with any other auto parts supplier, Magna is valued based on scale and efficiency. The stock trades at 9.8 times trailing and roughly eight times forward earnings, while its net profit margin is about 4.5%. However, I believe the stock deserves a richer valuation based on its potentially lucrative position in the evolving auto industry and cash flows generated from current operations.

According to the company, electric and self-driving cars will need more parts than current internal combustion models. This should mean more sales for suppliers like Magna who are already ahead of the curve with production-ready technology.

Meanwhile, the company's cash flow yield is 13.3% when adjusted for leverage, and its dividend-payout ratio is just 25%, which means it has the capacity to deploy a lot more resources into research and development that could ultimately create more value for shareholders.

Foolish takeaway

All signs seem to indicate Magna's stock could move much higher over the next few years and is an attractive purchase at current market prices.

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