This TSX Stock Could Gain Over 75% Once Coronavirus Panic Ebbs

Description

China has taken a huge hit thanks to the coronavirus. The manufacturer of the world is handicapped and, as a result, so are the millions of businesses and consumers that depend on the country for its goods and services. One sector in particular that has taken a bad hit has been the automotive industry.

Auto sales across the world have been slowing down in the last year. The COVID-19 pandemic has made matters worse. Auto sales in China fell by 92% in the first half of February 2020, according to a CNBC report. The falling oil prices have failed to offset declining auto demand, and investors can expect this weakness to continue in the short term.

But there are still buying opportunities to look at. Investors can consider companies with strong fundamentals and robust cash flows. When the threat of the coronavirus is finally over, and the global economy resumes its normal course of action, you can expect significant gains on these stocks. Though China is slowing limping back to normalcy, the epicentre of the coronavirus pandemic has now shifted to Europe.

Coronavirus drags this auto stock lower by 34%

Martinrea International (TSX:MRE) is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems, and complex aluminum products focused primarily on the automotive sector. Martinrea has operations in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain, China, South Africa, and Japan.

The company announced its results for the fourth quarter and full year of 2019. Revenue for the whole year was $3.86 billion, up from $3.66 billion in 2018. Earnings were slightly lower at $181 million compared to $185 million in 2018. The **General Motors** strike in September and October 2019 impacted sales and operating margins, but for that fact, and a higher-than-normal level of tooling sales, Martinrea's operating margins would have exceeded 8% in 2019.

Martinrea had a good 2019 in terms of new business, which is a sign of customer confidence. New business wins totaled $140 million in annualized sales at mature volumes, including lightweight structures work on the new Daimler EVA II electric vehicle platform, which is expected to generate approximately $100 million commencing in 2022.

Transmission housings for the ZF Group will add approximately $30 million in annualized sales starting 2022. The company also purchased the structural components for the passenger car division of Metalsa, which will add approximately $400 million in annualized sales to the top line. This will take annualized sales in 2021 to $4.4 billion, up from $3.86 billion in 2019.

The Metalsa assets have ensured that 2020 is off to a solid start, despite some headwinds with the coronavirus situation, and the company is expecting first-quarter sales, excluding tooling sales, to be in the range of $860 million to $910 million.

The company has declared a quarterly dividend of $0.05 per share, which is an increase of 10%. It has a forward dividend yield of 2.4% and a forward price-to-earnings multiple of four, making Martinrea an attractive contrarian buy, especially after considering a five-year estimated earnings growth of 9.1%.

Before the virus held the global economy in a vice grip, analysts had an average price target of $17.63 for Martinrea. The stock is trading at $9.69, which is a discount of 80% compared to its target price. As fears of the coronavirus continue to grow, investors can expect Martinrea stock to experience some weakness. But when the tides turn, this stock will rebound. It’s a great value buy if you time your entry right.

CATEGORY

1. Coronavirus
2. Investing

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1. Editor's Choice

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1. TSX:MRE (Martinrea International Inc.)

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