



## These Stocks Are Outperforming the Broader Market: Which 1 Should You Buy Now?

### Description

After witnessing massive sell-off in the first quarter, the auto parts companies continued to outperform the broader market for the second consecutive month in May 2020. In April and May combined, **Magna International** ([TSX:MG](#))([NYSE:MGA](#)) — the largest North American auto parts maker — surged up by 29.3% as compared to only a 13.6% rise in the **S&P/TSX Composite Index**. During the same period, the shares of Magna's direct peers, such as **Linamar** ([TSX:LNR](#)) and **Martinrea International** ([TSX:MRE](#)) rose by 31.3% and 32.9%, respectively.

Previously in the first quarter, the TSX composite benchmark nosedived and plunged by 21.6%, while these auto parts makers underperformed the index. Magna, Linamar, and Martinrea saw 36.9%, 40.7%, and 52.4% value erosion in Q1, respectively.

### Why are auto parts companies rallying?

The recent sharp recovery in auto parts stocks could be a result of investors' optimism due to the gradual reopening of the economic activities, which include the return of auto industry workers to jobs. In the U.S., "skilled-trades workers and salaried employees also began returning to auto assembly plants to prepare for the wider restart," [Reuters reported](#) on May 11.

We should remember that Magna is one of the key auto parts and components suppliers to the top two U.S. automakers — **General Motors** and **Ford**, as well as to **Tesla** — the popular American electric car maker. This is the reason why the reopening of these companies' car assembly plants is likely to revive the demand for auto parts, which has been badly hurt by the COVID-19 outbreak across the globe.

### Which auto parts maker is best positioned?

On May 7, Magna released its first-quarter results. During the quarter, the company's sales fell by 18.3% YoY (year over year) to US\$8.7 billion. According to the company's estimates, the COVID-19

outbreak stole about US\$1.1 billion from its total sales and hurt its adjusted EBIT (earnings before interests and taxes) by US\$250 million. While the company expects more headwinds from the ongoing global pandemic on its business in FY 2020, its management continues to remain focused on new programs and new technologies, thanks to Magna's strong balance sheet.

In comparison, Linamar — Canada's second-largest auto parts maker sales — slipped by 21.5% YoY in the first quarter. The company makes more than half of its revenue from the industrial segment, which includes its agricultural sales. In the last quarter, Linmar's industrial segment sales tanked by 35.7% YoY. In the next few quarters, the chances of any significant improvement in its agricultural sales remain low due to factors ranging from poor crop conditions, stagnant commodity prices, and the re-escalation of the [U.S.-China geopolitical tensions](#). This is the reason I would advise investors to remain cautious while betting on Linmar's industrial sales recovery soon.

However, Ontario-based auto parts maker Martinrea's total sales fell by 14.7% YoY in the quarter ended March 2020. It acquired structural components for passenger cars business of Mexican auto parts maker Metalsa S.A. in March 2020, for about US\$19.5 million in cash. Due to the ongoing pandemic, Martinrea and its newly acquired business might continue to face challenges except in China, where it has resumed operations at all four of its plants.

## Foolish takeaway

As of June 4, the shares of Linamar and Martinrea have gone up by 41.7% and 52%, respectively, on a quarter-to-date basis. With this, they have outperformed Magna stock, which has seen a 35.5% rise in this quarter so far.

I believe Magna is well positioned, as compared to its peers, to take advantage of an expected recovery post the COVID-19 crisis. In the last few years, automakers across the globe have shifted their focus from traditional auto manufacturing business to autonomy and smart mobility. Hence, being a mobility technology company, Magna's continued investments in the new technology and mobility are likely to help the company attract more demand for its products and services.

## CATEGORY

1. Coronavirus
2. Investing

## TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)
4. TSX:MRE (Martinrea International Inc.)

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