Why the “Canadian Tesla” Is a Solid Growth Stock

Description

Electric vehicles are a major thematic for growth investors. But should investors plump for the obvious option or go with a Canadian alternative for exposure to this burgeoning industry?

Magna International (TSX:MG)(NYSE:MGA) isn’t exactly a “Canadian Tesla” (NASDAQ:TSLA) – but it’s arguably the closest analogue that a **TSX** investor can point to this side of the border.

Tesla is a play for a truly innovative vehicle line, next-gen battery design, and a large pinch of headline-generated momentum. But there are a few reasons why Magna might actually be the better buy out of the two stocks.

Weighing up two very different auto stocks

One of the biggest reasons why Magna is a more rounded long-term play than Tesla is that its operations are more diverse, thereby spreading the risk incurred in a personal investment portfolio through overexposure to any single industry.

Since Tesla is a pure-play on batteries and electric vehicles, its stock market performance is driven largely by that market alone.

Yes, also there’s the NASA connection via SpaceX and the broader applicability of Tesla’s battery systems beyond the auto industry. In-house development is one of the main strengths of this company, after all.

And there’s the fact that Tesla operates on the markets with an event-driven momentum that is almost separate from the company’s real-world activities.

But Magna has a few more strings to its bow when it comes to the auto space itself. First, it’s a major auto parts retailer and one of Canada’s largest companies. Magna also pays a dividend, marking one of its most notable differences from Tesla.

A wide-moat play for passive income and growth

A 3.5% dividend yield is moderately rich for a potential growth stock and is well covered by a 51% shareholder payout ratio. Also, a considerable proportion of Magna’s revenue comes from Europe (the company does have “International” in its name, after all), which makes for a lower-risk income play via geographical diversification.

Where Tesla and Magna can really go toe-to-toe, however, is in the electric vehicle market in China. Tesla is experiencing a boost from the Asian financial powerhouse via Model 3 and Model Y operations emanating from its Shanghai Gigafactory.

Magna, meanwhile, has skin in the game through its partnership with the Beijing Electric Vehicle Company.

At the end of the day, Tesla wins on pure momentum, while Magna is a more well-rounded play that satisfies several buy-and-hold criteria. In fact, while both companies operate in the same industry, their stocks couldn’t be more different.

Tesla behaves more like a tech stock than an auto stock, for instance, with its high market ratios and galloping momentum.

However, post-pandemic growth in the electric vehicle market in China could reward Magna shareholders with capital gains in the longer term. Investors still have a reasonably priced play here, with attractive fundamentals (such as a P/E of 15, and very reasonable P/B of 1.3).

Share price growth has been steady in the last three-month period, up 5.7%. The stock is also only down a few points year-on-year – not bad for an auto name with none of Tesla’s hype.

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