Magna International Stock: Keep an Eye on These Risk Factors

Description

The shares of **Magna International** (TSX:MG)(NYSE:MGA) — the Canadian auto parts company — have outperformed the broader market in the second quarter so far. The stock has climbed up 32.7% on a quarter-to-date basis against a 16.3% rise in the **S&P/TSX Composite Index**. The gradual reopening of auto factories across North America could be one of the key reasons keeping investors' hopes alive.

However, Magna's stock is still trading deep in the negative territory on a year-to-date basis. It has seen 16.3% value erosion in 2020 while TSX benchmark and **Linamar** — Magna's direct peer — have lost 8.8% and 18.3%, respectively. These losses are a result of a massive market-wide sell-off in the first quarter — triggered by the COVID-19 outbreak. These fears drove Magna stock down by 36.9% in Q1.

Key negative factors

In the first quarter, the company reported adjusted earnings of US$1.40 — down 14.1% YoY (year over year). It was the fifth quarter in a row when Magna International's EPS declined on a YoY basis.

Similarly, the company's sales tanked for the sixth consecutive quarter, as it reported an 18.3% YoY decline in its total sales in the last quarter. Factors such as weakening car sales along with rising commodities and other raw material costs have hurt its sales.

Higher costs have also squeezed Magna's profit margins in the last year. In Q1, the company reported a 4.9% adjusted net profit margin as compared to 5% a year ago.

In its first-quarter earnings conference call, Vince Galifi — its chief executive officer — said that global light vehicle production has fallen by 27%. The company blamed COVID-19-driven shutdowns across the globe for a sharp drop in auto production — which was already on a downward trajectory.

Will the financials improve?

If you already own Magna International stock, then you're very likely to find its second-quarter results disastrous. Analysts expect the company's earnings to tank by over 50% in the second quarter with a more than 55% drop in its sales. While the COVID-19-related uncertainties may continue to rule the market for the next several months, Magna's sales could gradually improve after the second quarter, as more and more auto companies reopen and increase their production capacities.

Foolish takeaway

It will help if you keep an eye on the auto sales in the coming months — especially in large markets such as the U.S. and China. A consistent steep drop in car sales — in the coming months — could make auto parts companies like Magna International suffer for longer.

Recently, its valuations have gone up. Magna is currently trading 5.9 times its EV/EBITDA and 11.2 times its earnings over the trailing 12 months.

The ongoing pandemic could continue to keep investors on their toes, as the business uncertainties continue to haunt them. In such a scenario, you should always carefully assess your risk appetite before making any investment decision. But if you have a high-risk appetite, you may still consider buying Magna's stock for the long term. Being North America's largest auto parts maker, it could witness a handsome sales recovery as the auto companies try to boost their production in the coming months.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/08/22
Date Created
2020/06/24
Author
jparashar