Forget Tesla! Magna Stock Is the Way to Play the EV Space

Description

The astronomical rise of **Tesla's** stock price of late has enticed many investors into the electric vehicle (EV) space.

Of course, buying EV auto makers is one way to play this sector's growth potential. As with other secular trends, I often prefer a "picks-and-shovels" approach to investing, rather than buying direct claims. In other words, finding the suppliers that support the companies directly impacted by strong secular tailwinds can be a safer (and potentially better) way to get more impressive risk-adjusted returns over time.

In this context, I'm going to discuss why **Magna International** (TSX:MG)(NYSE:MGA) is a sneaky way to play this aggressive secular growth sector.

Magna's business model a gem

Magna produces essential vehicle components. That's a relatively simple business to understand. Whether it's for an internal combustion engine (ICE) or an EV, it doesn't matter. In fact, Magna has been making investments focused on providing a larger percentage of components to electric vehicles moving forward.

Indeed, it seems the growth potential in the mass-produced EV market gives investors in Magna stock right now a lot to like about this large-cap company's growth potential. I think a lot of optimism about growth in the auto sector stemming from rising EV adoption is factored into Magna's stock price now. That said, I think this stock has lots of room to run higher, as I don't think the market has fully captured the growth potential with suppliers like Magna as of yet.

Fundamentals solid

Additionally, the fundamentals of Magna are far superior to those of Tesla, in my view. Magna is an established business with attractive valuation metrics right now. The company is trading at roughly 10 times operating cash flow and roughly 63 times trailing earnings. These metrics might not seem cheap at first glance. However, when one considers the aforementioned growth potential of the EV market, this company looks dirt cheap compared to the EV makers right now.

I think Magna's dividend yield of 2.2% is substantial enough to entice income investors to the party. Additionally, I think there's a ton of potential for dividend growth over time, as Magna works on capturing more of the EV supply chain. Magna is already one of the largest auto part manufacturers and suppliers globally. If Magna is able to corner the market on specific components, I think there's a tremendous amount of room for multiple expansion to coincide with impressive earnings growth long term. Such factors would improve Magna's fundamentals further and could take this stock price on a very nice ride in the years to come.

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