



This 5-Year Prediction of Magna (TSX:MG) Might Surprise You

Description

Whenever you think of investing, you think of the future. But still, many people are investing in the crypto mania, the future of which is in the doldrums. The author of *The Intelligent Investor*, Benjamin Graham, said, "In the short run the market is a voting machine, but in the long run it is a weighing machine." Whenever you invest your paper money in something, try to understand where the stock will be five years from now. That is the minimum time a stock needs to give decent returns. I will take you through **Magna International's** ([TSX:MG](#)) ([NYSE:MGA](#)) five-year prediction, analyzing the opportunities and threats.

What is Magna's growth formula?

Building a car is no one company's job. It takes a whole supply chain of multiple companies. Magna supplies automotive components to every major original equipment manufacturers (OEMs). However, it only supplies components for lightweight vehicles.

If you look at Magna's last year fundamentals, its revenue, earnings per share (EPS), and return on equity (ROE) fell. The pandemic significantly impacted Magna. The stay-at-home orders closed factories and disrupted the demand and supply of cars and car components. Global light vehicle production and Magna's sale both fell 17% in 2020. Despite this, Magna increased dividend per share by 9.5-10%, showing its commitment to shareholders.

Starting this year, Swamy Kotagiri became the CEO, and his strategy is to focus on future growth trends. Under his leadership, Magna is accelerating its move to electric vehicles (EVs). Magna has [partnered](#) with several EV makers and OEMs like Fisker, **LG Electronics**, and Beijing Electric Vehicle.

The year 2021 is also the year of recovery, as the pandemic eases and allows companies to address the pent-up demand. Magna's first-quarter earnings reported an 18% and 91% year-over-year (YoY) surge in sales and adjusted EBIT. This growth from the pent-up demand is only partial.

The five-year prediction for Magna

The automotive market is facing supply issues because of a global shortage of semiconductors. As I said before, it takes multiple companies to build a car, and semiconductors are key components in EVs. Many auto OEMs have either temporarily shut down facilities or reduced production volumes due to chip shortage. The latest expectation is that chip shortage will ease in 2022.

Once the pandemic and the chip-shortage issue subside, the pent-up demand for EVs could drive Magna sales to unprecedented levels. The company has also right-sized its business that will reduce its cost by US\$200 million by 2022, thereby improving profits. Kotagiri noted that Magna has already booked over 90% of its 2023 sales. This shows the company has significant growth coming in the next five years.

To add to the growth, major automotive markets — China, Europe and the United States — have implemented subsidies and policies that support EV adoption. They are also investing in EV charging infrastructure. A Deloitte [report](#) expects EV sales to surge 30% annually over the 2030 decade.

On Magna's EV strategy, Kotagiri said, "The key lies in how you develop a strategy that is modular and scalable. We always looked at it as a marathon: Have the sustenance to stay in the race rather than try to address it as a sprint." His statement confirms that EV is a long-term marathon that will drive Magna's sales in the 2030 decade and maybe beyond.

Autonomous vehicles

While Magna is acting on its EV strategy, its research team is working on the future beyond. It has invested US\$100 million in **Alphabet's** autonomous vehicles (AV) project Waymo. There are rumours that Waymo is considering public listing. Moreover, Magna is also eyeing a partnership with **Apple** for the latter's future AV.

These AV projects could take another few years to materialize and open a whole new world for Magna. I have excluded this from my five-year prediction, as nothing is concrete, and it is too early to monetize AVs. Don't build your expectation around this growth opportunity, but stay updated on how the AV project progresses.

Magna stock has immense growth potential in the coming decade. It could also double your money in five years. This is a stock to buy and forget.

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