



Here's Why I'm Bullish on Magna (TSX:MG) Despite the 18% Correction

Description

Magna International ([TSX:MG](#))([NYSE:MGA](#)) stock dipped as much as 18% since June after rising 100% between October 2020 and May 2021. The 100% [growth](#) in this stock beat its previous growth cycle of 63% (April 2017 to June 2018). The recent growth cycle was led by the victory of Joe Biden to the U.S presidency and the hope of recovery from the pandemic. So what happened? Have these growth factors faded, or is it something else?

Magna's key growth drivers in the current growth cycle

As the world's third-largest auto parts supplier Magna took a big blow when the pandemic shut down all non-essential factories worldwide. With no vehicle production happening, Magna's revenue fell 17% in 2020 as global light vehicle production decreased 17%. The stock fell 45% in the March 2020 dip.

But things started to revive in October as Joe Biden, in his presidential campaign, committed to investing in electric vehicles (EVs) and EV charging infrastructure. This was the time when all environmental and green energy stocks jumped. The United States is a huge market for renewables, which has been out of sight during Donald Trump's presidency.

Magna is [expanding](#) in the EV space through partnerships. It already caters to 23 of the top 25 EV makers. Hence, a boost in EV adoption boded well and indicated long-term growth for Magna. The United States, Europe, and China aim to achieve zero carbon emission or a 50% cut by 2050. With transportation topping the list of CO2 emitters, these countries crafted policies that encourage a shift to EVs.

The above two growth drivers of pandemic recovery and EV adoption are still intact. A Deloitte [report](#) expects EV sales to surge 30% annually by 2030, thanks to their growing adoption. But the automotive industry faces a new problem of global semiconductor supply shortage. This shortage has delayed Magna's growth.

Magna's growth encounters a new challenge

To give you a hint of the impact of chip shortage, Magna reduced its 2021 revenue guidance by US\$2.2 billion to US\$39 billion. The chip shortage is reducing global light vehicle production.

Investors and analysts looked at the forecast cut. But the latest earnings showed a remarkable recovery from the pandemic lows. Magna's second-quarter revenue surged 110% year-over-year (YoY) to US\$9 billion as global light vehicle production increased 58%. That's a recovery from the pandemic peak (second quarter of 2020), but 11% below the 2019 levels of US\$10.13 billion. This recovery gap is because of the semiconductor supply shortage.

Investors have already price in a recovery in the Magna stock price. The stock is trading 68% above its pre-pandemic average of \$74. Hence, a delay in recovery pulled the stock down.

But the semiconductor supply shortage won't last forever. The chip industry would increase production capacity to meet the growing demand. Once the supply shortage ends, the pent-up demand could drive EV sales to new highs., which is when Magna stock could return to growth and ride the EV wave.

What's happening on the acquisition end?

In the meantime, Magna is using the bearishness in automotive stock to acquire technology for the next big automotive revolution: autonomous vehicles. Its CEO Swamy Kotagiri is focusing on the upcoming automotive trends of electrification, connectivity, and automation. Hence, Magna raised a US\$3.8 billion bid to acquire Swedish auto technology supplier **Veoneer**.

Veoneer would provide Magna with hardware, software, and systems used in advanced driver-assistance systems (ADAS). But chip supplier **Qualcomm** raised a counter bid of US\$4.6 billion, which is more attractive. I don't expect Magna to win the bid against Qualcomm, but the former could look for other acquisitions.

Final thoughts

If you invested in Magna stock for the long-term, you need not worry about these short-term dips. It is a stock with significant growth ahead of it.

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Date

2025/08/22

Date Created

2021/08/16

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