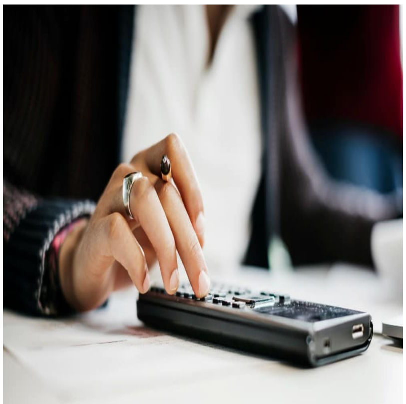

Is Magna International (TSX:MG) a Good Buy at These Levels?

Description

This year has been good for Canadian investors, as the **S&P/TSX Composite Index** is trading 23.6% higher to date. However, **Magna International** (TSX:MG)(NYSE:MGA) has underperformed the broader equity markets by delivering returns of only 16%. The decline in auto production due to semiconductor chip shortages has weighed on its financials and stock price. So, let's assess whether Magna International would be an excellent buy right now. First, let's look at its performance in the recently reported third quarter.

Magna International's weak third-quarter performance

During the third quarter, Magna International's top line declined by 13% on a year-over-year basis to US$7.92 billion. Amid the challenging environment this year due to the decline in vehicle production, the better comparison would be a quarter-over-quarter one. Sequentially, its sales have declined by 12% due to a negative product mix in North America and Europe, unfavourable currency exchange, and disinvestment in three of its exteriors' facilities.

Along with weaker sales, the unpredictable production schedules, higher input costs, such as freight and commodities, and US$45 million provisions for its investment with **Evergrande** have also weighed on its margins, dragging its EBIT margin down to 2.9% from 6.2% in the previous quarter. Meanwhile, the company generated an adjusted EBIT of US$229 million, representing a significant decline from US$557 million in the second quarter. However, the company ended the quarter with its liquidity standing at a solid US$6.2 billion. So, it is well equipped to fund its growth initiatives.

Magna International's growth prospects

With the expectation of chip shortage continuing to hit vehicle production, Magna International's management expects light vehicle production to fall this year. The management projects a year-over-year decline of 7%, 9%, and 7% in North America, Europe, and China, respectively. In alignment with its lower production, the management has also slashed its sales and EBIT guidance for this year. The management expects its revenue to be US$35.4 billion to US$36.4 billion, while its adjusted EBIT margin could fall between 5.1% to 5.4%.

Despite its near-term challenges, I am bullish on Magna International due to its healthy long-term growth prospects, as it has significant exposure to the growing EV market. In July, the company established a joint venture with **LG Electronics** to strengthen its position in the global electric powertrain market as the demand for e-motors, inverters, and electric drive systems could witness substantial growth over the next few years.

Also, through its Mezzo Panel technology, Magna International is reimagining the face and functionality of electric vehicles. The technology offers an excellent opportunity for designers and engineers to integrate advanced driver-assistance systems (ADAS). Its ICON Digital Radar could also strengthen its position in the ADAS market.

Meanwhile, the ADAS market could grow at a CAGR of 20% from 2021 to 2023 and 15-20% after that until 2027. With its innovative products, Magna International is well equipped to benefit from the growing ADAS market.

Bottom line

Despite its healthy growth prospects, Magna International is trading at an attractive valuation. Its forward price-to-sales ratio and forward price-to-earnings ratio stand at 0.7 and 14.5, respectively. It also pays a quarterly dividend of US$0.43 per share, with its forward yield standing at 2.08%. So, considering all the factors mentioned above, I expect Magna International to outperform the market over the next three years.

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