Should You Buy the Dip in Magna and Linamar Stocks?

Description

The ongoing Russia-Ukraine war has intensified in the middle of March, as the invading force has stepped up its bombing of major Ukrainian cities. Markets have responded positively to recent reports that indicate peace talks have made some progress. With luck, negotiators will be able to put a stop to this unfolding humanitarian catastrophe. The economic impacts have also been widespread, reaching across continents.

Today, I want to discuss the impact the conflict and the subsequent sanctions have had on two top Canadian auto parts manufacturers: **Magna International** (TSX:MG)(NYSE:MGA) and **Linamar** (TSX:LNR). Should investors look to buy the dip in Magna and/or Linamar? Let's jump in.

Why these auto parts manufacturers have been hit hard in recent weeks

Many top North American and European companies have opted to withdraw from Russian in response to its war of aggression against Ukraine. Magna, the Aurora-based auto parts manufacturing giant, announced that it would pause its operations in Russia in response to the war. It currently has six plants in Russia that employ 2,500 people.

Linamar saw its stock decline for a different reason, though it was still related to the ongoing conflict. The war will likely lead to months of disruption for the auto industry. For example, Linamar and its peers will be unable to procure vital components and systems from Ukraine. This has exacerbated existing supply chain issues related to the shortage of semiconductors.

Here's why I'm snatching up Magna stock on the dip

Shares of Magna have plunged 29% in 2022 as of close on March 16. The stock is now down 33% in the year-over-year period. In January, I'd discussed why Magna's exposure to the electric vehicle (EV) space was one of the reasons I was looking to target the stock. Magna is set to face obstacles in the months ahead, but this also provides an opportunity to buy this promising stock on the dip.

The company unveiled its fourth-quarter and full-year 2021 earnings on February 11. Sales increased 11% from the prior year to $36.2 billion in 2021. Meanwhile, adjusted diluted earnings per share jumped to $5.13 over $3.95 in the prior year. Moreover, adjusted EBIT rose to $2.06 billion compared to $1.67 billion in 2020.

Magna stock possesses a favourable price-to-earnings (P/E) ratio of 12. Moreover, it offers a quarterly dividend of $0.45 per share. That represents a 2.9% yield.

Should you avoid Linamar stock in March?

Linamar stock has plunged 24% so far in 2022. Its shares are now down 25% in the year-over-year period. However, the stock has already spiked 9.2% over the past week.

Like Magna, Linamar also put together a very strong 2021. Investors may have to stomach volatility in the near term, but looking forward, Linamar also looks like a promising play. Linamar saw new business wins hit a record in 2021. Meanwhile, it delivered sales and net earnings growth of 12% and 50%, respectively, over the previous year. Better yet, Linamar has also jumped into the EV space.

Shares of Linamar last had an attractive P/E ratio of nine. It offers a quarterly dividend of $0.20, representing a modest 1.3% yield.

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1. Investing

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2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)

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