



## 1 Canadian Stock You Won't Regret Buying at the Dip

### Description

The stock market has been moving on [the fear of recession](#). The TSX Composite Index fell almost 11% from April 20 to May 12 and then showed some recovery. But there is more downside coming, as the Bank of Canada continues to increase interest rates to curb inflation. One stock that fell in this dip was **Magna International** ([TSX:MG](#))([NYSE:MGA](#)). But the stock has been falling even before this dip for almost a year. It has dipped to the November 2020 level.

### One Canadian stock to buy the dip

But Magna is a stock I suggest you should buy now. If you look at the historical price movement, Magna was not quite the [growth stock](#), trading in the \$60-\$70 price range. However, the stock made an unprecedented jump of almost 100% during the pandemic as U.S. president Joe Biden announced the clean energy plan that included investment in electric vehicles (EVs). And now, Magna stock is back to its original price, as several factors have pulled down its earnings.

### What is working against Magna?

Magna supplies body exterior, seating, and power and vision components for cars. It also provides complete vehicle manufacturing services to tech companies that make cars. The company was banking on the EV revolution for growth, but the pandemic stalled this growth. Lockdowns across the globe created an acute automotive semiconductor shortage, which impacted automotive sales. This shortage was expected to ease in 2022.

But Russia's invasion of Ukraine disrupted the global supply chain, which had just started to recover from the pandemic. Commodity prices surged, especially prices of key metals used in EVs (cobalt, [nickel](#), aluminum), as western countries imposed sanctions on Russia. Moreover, energy and oil and gas prices surged significantly, thereby increasing transportation costs. All of this has increased factory overhead costs. These geopolitical tensions prolonged the chip supply shortage.

The Russia-Ukraine war also had a direct impact on Magna. The company idled its Russian

operations, which generated \$371 million in 2021. That's the supply side of the story.

On the demand front, rising energy and commodity prices have increased inflation. The Fed is increasing interest, which could reduce consumer spending and impact automotive demand. Moreover, renewed lockdowns in China, the world's biggest automotive market, created uncertainty in both demand and supply.

All these moving variables have stalled the EV revolution and impacted Magna's financials in the short term. Its [first-quarter](#) revenue fell 5% year over year due to lower production volumes. Even though volumes were low, factory overhead increased due to rising commodity prices. This reduced its adjusted EBIT margin to 5.3% from 7.6% a year ago. Amid the war, the company has drastically lowered its 2022 guidance. It expects Europe's light vehicle production to fall by 2.4 million units, as Russia's operations remain idle.

## What is working in favour of Magna?

Several things are going against Magna in the short term. But one thing in favour of Magna is the secular growth of EVs. The United States and Europe are looking to reduce dependence on Russian oil. This has accelerated their efforts to promote EVs. President Biden has invoked Cold War powers to support the domestic production of materials used in EV batteries.

The U.S., Europe, and China are hell bent on reducing their carbon emissions. The war did not impact government support for EVs and renewables. Moreover, most tech and automotive companies are developing their own EVs. Magna supplies components and complete manufacturing services to these companies.

You might wonder why I am bullish on the stock when odds are against the company's business. The short-term headwinds that are pulling the stock down are not company specific but industry wide. Despite these headwinds, Magna paid dividends and repurchased shares. It did not cut its capital spending either. This is because government policies are in its favour. Policies and government support play a major role in boosting a business.

Magna stock surged 100% after Biden announced support for EVs. The stalling of Russian operations would impact Magna. But its three major markets, China, Europe, and the United States, have significant growth potential. In the next five years, the stock could double your money.

### CATEGORY

1. Investing

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1. Editor's Choice

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