Is Magna International (TSX:MG) Stock Undervalued?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Everyone likes to find a good, undervalued stock. During a market correction, even the shares of the best companies will tumble, giving brave investors a rare opportunity to purchase them at a discount. In many ways, the best value investors make their fortunes by buying the stocks of beaten-down but otherwise solid companies.

Company

Magna International (TSX:MG)(NYSE:MGA) designs, engineers, and manufactures components, systems, and equipment for commercial and consumer vehicles worldwide. The company is divided into four segment: Body Exteriors & Structures, Power & Vision, Seating Systems, and Complete Vehicles.

Like many manufacturers, MG has some slim margins, with a dismal 4.70% operating and 3.54% profit margin. Its return on assets and return on equity are about average at 3.59% and 10.88% respectively. The company posted a trailing 12-month (TTM) revenue of $35.7 billion, but with -5.30% year-over-year (YoY) revenue growth and -40.80% quarterly earnings growth.

Despite this, MG is flush with $2 billion in cash on the balance sheet and TTM operating cash flow of $2.46 billion for a current ratio of 1.30. The stock also pays a decent dividend yield of 2.94% and is more volatile than the market with a beta of 1.48.

Valuation

MG is solid enough of a company that I would not worry about trying to time a good entry price. However, new investors should always be aware of some basic valuation metrics so they can understand how companies are valued and what influences their current share price.

Currently, MG is currently trading at $74.39, which is extremely near the 52-week low of $70.16. This could indicate that the stock has corrected and is about to bottom out.

MG currently has a market cap of $23.23 billion. This gives it an enterprise value of $26.51 billion with a enterprise value to EBITDA ratio of 8.05, similar to peers in the industrial/manufacturing sector.

For the past 12 months, the price-to-earnings ratio of MG was 18.39, with a price to free cash flow ratio of 21.9, price-to-book ratio of two, price-to-sales ratio of 0.65, and book value per share of approximately $39.23. In terms of these metrics, MG does not look undervalued.

MG is currently covered by a total of 33 analysts. Of them, 23 have issued a “buy” rating, one has issued a “sell” rating, and nine have issued a “hold” rating. This is generally a considered a bullish sign, given that the majority of analysts rate it a buy.

MG has a Graham number of $61.31 for the last 12 months, a measure of a stock’s upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, MG does not look undervalued.

Is it a buy?

Despite its current share price being more or less fairly valued, long-term investors should consider establishing a position if they have the capital. Over the next 10-20 years, your entry price won’t matter as much if MG continues its strong track record of stability and cashflow. Consistently buying shares of MG, especially if the market corrects, can be a great way to lock in a low cost basis.

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