



## How to Identify a Value Stock and Become Wealthy

### Description

The key to becoming wealthy in stock investing is to keep it simple. As you step into investing, you will read many analysts talking about tons of data and financial models. But rarely do you see value investors talk about financial models and net present value. That is what differentiates a shareholder from a trader. In this article, I will discuss how to identify a [value stock](#) and become wealthy in the long term.

### Identifying qualitative vs. quantitative factors in a stock

Many analysts prepare complex quantitative models and charts based on historical fundamentals of the known information. But the wealth lies in the future fundamentals based on unknowns. The problem with quantitative models is that they are as good as their inputs. They work on linear situations. But often, the best and the worst investment outcomes come from non-linear situations.

For instance, the pandemic resulted in the best outcome for tech stocks and the worst for airlines. This was the most obvious outcome. No quantitative model could have predicted this early. And by the time the linear relation started becoming visible in numbers, it was too late to make millions from that stock.

The quantitative model can help you hop on the rally and probably double your money. But qualitative analysis can help you get 10 times growth if you can think beyond the numbers and visualize the business from a 360-degree perspective.

### Identifying the “essence” of each business

When you look beyond numbers, you see the qualitative aspects like first-mover advantage, management, industry developments, product obsolescence, and scalability. These are intangible factors that have far reaching impact than tangible factors.

So, when you look at a stock's revenue growth or profit margin, ask what is leading to this growth? Is this profit sustainable? What does the management plan to do with the cash reserve? Is there a

demand for the product, or is competition eating up its market share?

**Apple** put **BlackBerry** out of the phone business in 2007 with its iPhone. This non-linear factor was not quantified, but it cost BlackBerry shareholders 80% of their value. Similarly, the **Advanced Micro Devices** turnaround story of giving competition to the chip giant **Intel** in nanometer technology was a qualitative factor. This stock was identified early only by those who understood the essence of the business because the numbers were not visible until 2018.

## Is Magna a value stock?

**Magna International** ([TSX:MG](#))([NYSE:MGA](#)) stock is down 45% from its June 2021 peak and is trading at 11.7 times its forward price-to-earnings ratio ([P/E](#)). The pandemic, the chip supply shortage, and the increase in the cost of metals pulled down the demand for electric vehicles (EVs). Magna's first-quarter revenue and EPS fell 5% and 31%, respectively. But if you look past these numbers and into the industry and macro trends, the secular demand for EV stays.

The recession could slow the EV demand this year, but this will give the industry time to build the infrastructure. More automakers are developing their own EVs as they see long-term demand. This technology has outperformed traditional cars in terms of engine, maintenance, and emission. EVs are still expensive, but research is ongoing to make them cost efficient.

The global EV market is [expected](#) to increase at a compounded annual growth rate (CAGR) of 24.5% between 2022 and 2028. Magna will benefit from the trend, as it has partnered with 24 of the top 25 EV makers to supply components and has partnered with some to assemble EVs.

Now, ask yourself one question. Do you plan on buying an EV five years from now? If the answer is yes, you have simplified the investment math.

You can use historical data to understand how the stock reacts to the recovery. Magna's sales fell 58% year over year in the second quarter of 2020 due to the pandemic. But when the sales recovered in the second quarter of 2021, the stock price doubled. The future EV trends show that sales could rebound faster than they did in the second quarter of 2021. This makes Magna a value stock with significant growth potential in the next eight to 10 years.

### CATEGORY

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1. NYSE:MGA (Magna International Inc.)
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#### **Date**

2025/06/30

#### **Date Created**

2022/07/19

#### **Author**

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