3 Things to Know About Magna International Stock

Description

Since you're here, you must be interested in **Magna International** (TSX:MG) stock. It has a leading position and is the fourth-largest auto parts supplier in the world with operations in North America, Europe, and China. It has a large scale with 341 manufacturing operations and 89 product development, engineering, and sales centres across 28 countries. Before taking a position in the stock, here are three things you should know about the TSX stock.

Magna International is a cyclical business

Magna is a cyclical stock. Generally speaking, the business does well in an economic expansion and does poorly during economic contractions that can sometimes turn into recessions. It's super difficult to hold the stock through a downturn.

Currently, the United States has technically entered a recession, which is defined by two consecutive quarters of gross domestic product decline. Multiple experts, including ones from **RBC**, believe that Canada will soon follow next year.

High inflation has been occurring in many parts of the world. As a result, many central banks have been raising interest rates, which has been dampening economic growth. The money supply tightening has added to the selloff in Magna stock after its strong rally (partly from an increase in money supply at the time) from the pandemic market crash in 2020.

Is Magna stock's dividend safe?

Because Magna is a cyclical business, its earnings can be highly volatility and unpredictable. This is why it maintains a low payout ratio through economic cycles. In the past decade, its payout ratio, based on adjusted earnings per share (EPS), ranged from 16-41%. Last year, its payout ratio was 34%.

This year marks Magna's 12 consecutive years of dividend growth. Despite a negative economic outlook, and the increased likelihood that its earnings would drop this year, its dividend remains safe. Its adjusted earnings per share declined 35% in the first half of the year versus the same period a year ago. Even if that were its full-year result, its payout ratio this year should still end up being sustainable at approximately 54%.

Who competes with Magna International?

One of Magna's competitors is **Linamar**. Linamar is a smaller company that's about 16% the size of Magna based on enterprise value. The smaller company enjoys a higher margin and has also delivered higher total returns in the last one and three years. However, Linamar's dividend track record isn't as good as Magna's, as it appears to focus on growth. If you're interested in the auto parts space, you should investigate both companies to see which may be a better fit for your portfolio, as their stocks tend to move in tandem.

Foolish investor takeaway

Magna International is a blue-chip stock in the cyclical auto parts industry. It is a Canadian Dividend Aristocrat that has a 20-year dividend-growth rate of 8.4% (despite some dividend cuts in between). It provides more stable returns through economic cycles than Linamar because of its higher dividend that yields about 3.5% at writing.

Additionally, Magna enjoys an S&P credit rating of A-. The stock's valuation is reasonable, making it a potential buy for diversified portfolios. However, investors need to be patient and wait for the next economic expansion phase to bank on price appreciation from extraordinary growth. Having an investment horizon of at least three to five years is encouraged.

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