Ready to Buy the Dip? This Auto Stock Is a Smart Buy

Description

The dip just keeps getting deeper. The **S&P/TSX Composite Index** is down 7.9% year to date. Tech stocks have lost double digits over this period, while energy stocks have outperformed but hit a plateau recently.

We still face a recession in the near future. Most economists expect central banks to keep raising rates and dampening economic activity for the next few months. A recession, of course, would push stocks even lower. Auto stocks, in particular, could be hit hard.

Demand for new vehicles is highly cyclical. During times of economic distress and inflation, consumers cut back on big purchases like cars and trucks. That means the auto sector is usually at the forefront of any recession. However, these downturns are opportunities for investors to add exposure to high-quality auto stocks like **Magna International** (TSX:MG).

Here's why this underrated and undervalued auto stock should be on your "buy-the-dip" watch list in 2023.

Outlook

Magna is at the intersection of every major shift in the automobile sector. It stands to benefit from the electrification of the global auto fleet as a parts supplier. By 2025, the company expects electric vehicle (EV) related auto parts such as battery enclosures and wiring to be worth $4.5 billion annually.

The transition to EVs also brings new potential customers for Magna's contract manufacturing business. This segment of the business, which is called Magna Steyr, has produced over four million vehicles under 32 different models for major global manufacturers. Experts believe that products for new competitors in this space, including the long-awaited **Apple** Car, could be produced by Magna Steyr.

Besides this, Magna's portfolio also includes proprietary designs and systems for self-driving cars.

These trends could boost Magna’s revenue and margins over the long term. In the near future, the stock is declining and becoming more attractive.

Valuation

Magna stock has lost roughly 31% of its value year to date. This plunge could continue, as investors factor in a recession and a downturn in the auto sector. However, Magna’s valuation is already attractive given its outlook.

The stock trades at a price-to-earnings ratio of 17.3. Based on earnings estimates for the next year, Magna stock trades at just 9.9 times forward earnings. Meanwhile, the stock offers a lucrative 3.3% dividend yield.

To augment its shareholder rewards, the company has been aggressively buying back shares. The team implemented a new buyback program last week that would allow for the repurchase of 28,400,000 shares. That’s roughly 8.9% of total outstanding shares.

Put simply, Magna stock is undervalued. It could get cheaper if the selloff intensifies. Investors looking for a long-term bet in the auto sector should keep an eye on this opportunity.

Bottom line

The ongoing downturn has created some interesting opportunities. Magna International looks undervalued and could be snapped up for a better price if the downturn continues. Keep an eye on this opportunity.

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