Is Now the Time to Buy Magna Stock?

Description

Magna International (TSX:MG) hit headlines this week as shares slumped from news it fell below its quarterly guidance. Magna stock announced that while sales fell within its outlook, its adjusted earnings before interest and taxes (EBIT) didn't.

The stock fell about 8% from the news, and remains down today. Yet, did this recent bad break mean that investors should step away from the stock? Or is it the best time to grab it while it's cheap?

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What happened

As mentioned, Magna stock fell below its recent projected outlook, announced on November 4 to investors. The company thought it would reach between 4.8% and 5% in adjusted EBIT for the quarter, but instead hit 4.3%. However, sales still came within the expected range, reaching US$37.8 billion, between the US$37.4 and US$38.4 billion expected.

The company also went onto warn that it will need to adjust its full-year 2022 guidance, and 2023 could be rough as well. Now, full-year earnings are due out on February 10, so investors are on edge ahead of potentially further bad news.

The reason for the drop came down to a few factors for Magna stock, and this is what investors should really pay attention to. There was the decrease in sales, higher net warrant costs, higher engineering expenses, operating underperformance at some facilities, and higher labour and operational inefficiencies. These are simply issues that won't disappear overnight. So what should investors do with Magna stock now?

Deal or no deal?

First off, let's look at the fundamentals for Magna stock. The company currently trades at 18.7 times earnings, which isn't in value territory, though it also trades at 1.74 times book value, which is. It would also take just 45.6% of its equity to cover all its debts, so it still has a strong balance sheet.

Shares of Magna stock are still down 16% in the last year, though up 286% in the last decade. This is interesting to look at because this was the turn of the electric vehicle (EV) movement, when Magna stock started creating partnerships to create electronic components. Not just for EVs, but for internal combustion engine (ICE) vehicles needing electronic parts as well.

Magna stock could have more in its future because of this shift. However, what analysts consistently worry about is that Magna is trying to do everything, rather than focusing on just a few things done well. And that could certainly continue being a problem, given that it continues to see underperformance and inefficiences.

Foolish takeaway

It looks like the next year at least could be difficult for Magna stock. Investors simply aren't looking for the next great growth stock right now, and its inefficiencies and stretching itself thing just doesn't bode well at this stage.

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However, long-term investors may want to consider the company. Magna has been around for decades, providing parts for vehicles as they've transitioned through the years. That doesn't look like it will suddenly stop, and so the next decade could spell out a huge opportunity for investors.

In the end, it's up to you. If you have the time, Magna stock could certainly provide you with huge returns in the next decade. But if you need that cash upfront, I'd perhaps hold off for the next year.

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