Chinese Stocks are Soaring: This TSX Stock Could Gain

Description

Chinese tech stocks are soaring this year. The tech-heavy Hang Seng Index is up 10% for the year, and up 50% from its 2022 lows.

Thanks to China's zero-COVID policy, which involved lockdowns far more severe than any ever seen in Canada, the country's economic growth ground to a halt. Most Chinese companies delivered sales growth near 0% in the most recent quarter (although earnings growth was strong due to cost-cutting).

Today, things are changing. China officially ended its zero-COVID policy, is forecasting 5.5% economic growth in 2022, and is generally trying its best to patch up relations with the United States. All of these things bode well for the country's economic growth, and its companies could benefit. So it should come as no surprise that Chinese stocks are rising: the economy looks set to rebound in a big way.

You could play this development by buying Chinese stocks directly – I know I have. However, many people are uncomfortable with Chinese names because of the country's perceived secrecy. Some think that the Chinese Communist Party ("CCP") is not being honest with its data. I personally think this claim is overstated, but if you subscribe to it, read on, because I'm about to reveal one *Canadian* company that could benefit from China's economic growth.

Magna International

Magna International (TSX:MG) is a Canadian car parts company that sells individual car parts and also manufactures cars. It does not have any car models of its own; rather, it manufactures cars for other companies at a plant in Germany.

Right away, China's economic re-opening benefits Magna. Magna already has 68 plants in China, and they'll be able to operate at higher capacity thanks to the re-opening. During the zero-COVID era, Chinese plants had to shut down during COVID outbreaks – that's not happening anymore. So, Magna could see a boost in sales and deliveries due to China's factories re-opening.

There is a second, more specific way in which Magna could benefit from China's economic reopening:

Through the sale of Electric Vehicles (EVs). In partnership with LG, Magna launched **LG-Magna e-Powertrain**, a company that manufactures EV components, including:

- Motors.
- Brakes.
- Powertrain systems.
- Internal electronics.
- And more.

Combining LG's electronics expertise with Magna's car expertise, the two companies are now building parts for some of the world's biggest EV companies. Many of those companies are located in China, so there's an opportunity to collect some new revenue here.

A risk to be wary of

As we've seen, Magna International benefits from China's re-opening in many ways. It will be able to manufacture many cars in China and sell parts to Chinese EV companies, too. That's all good, but there's a risk to keep in mind: A declining non-EV business.

Magna's EV parts business looks promising but the organic results from its non-EV parts business have been very bad. Revenue is down over a three-year period. So if you buy Magna stock, you'll really want to see that LG joint venture pay off – the rest of the business doesn't look so hot.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:MG (Magna International Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. cleona

Category

1. Investing
2. Tech Stocks

Date
2025/08/25
Date Created
2023/01/26
Author
andrewbutton