



Is Now the Time to Buy Magna Stock?

Description

Well, I guess the answer is “it depends” on your outlook.

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) is based in Canada and one of the largest parts suppliers for the automotive industry. The automotive suppliers business has expanded to incorporate a vast network of companies across the globe, and Magna represents possibly the most accurate approximation of global automotive demand, making the company’s stock price a gauge for investor sentiment on the sector.

The bearish view

A number of highly respected analysts, including fellow Fool contributor Joey Frenette, are bearish on Magna, and for good reason. The concept of “peak auto” is easy to understand, and though electric vehicles (EVs) are starting to really take off, the question of how long growth in the automotive industry can really continue is a compelling one.

If you’re betting a recession is on the horizon, trade wars will intensify or global supply chains will be hampered by an unforeseen shock like a pandemic, then shorting a company like Magna makes sense.

Personally, I do agree that the automotive industry is in a long-term decline, and betting on a company like Magna based on volume and low cost mass production does seem like a terrible idea.

That said, there are some compelling reasons to consider adding a position in Magna on weakness moving forward, which I’ll discuss now.

The bullish view

Fundamentally, Magna remains a reasonably valued company with impressive free cash flow generation and the ability to spend billions of dollars on capital expenditure to fund innovation in growing auto segments such as EU technology and level 1, 2 and 3 assisted driving technology (the

levels at which most cars are at today).

This year, the company expects to spend around \$1.7 billion on such technologies to lead the industry on these fronts as well.

Magna expects to see margin expansion over the next few years because of this shift toward a technology/assisted driving focus, and expects that regulatory delays with fully autonomous driving will give Magna a relatively long runway to take advantage of this shift. That said, while this market remains small, it's growing fast enough for investors to take notice.

Bottom line

Investors need to decide which side of the bet they are on with respect to the auto industry as a whole. Right now, I'm on the fence. I do see a sector-wide decline on the horizon and a number of headwinds on the horizon with the potential to make things miserable for Magna investors, but I also see a pathway to growth via renewed enthusiasm in growth sectors like assisted driving tech and the EV revolution.

It's a difficult choice, for now, I remain on the sidelines.

Stay Foolish, my friends.

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1. Investing

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1. automotive industry
2. canada
3. technology

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