



Magna International Inc. (MGA)

Updated May 7th, 2023 by Kay Ng

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	15.6%	Market Cap:	\$15.4B
Fair Value Price:	\$56	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	05/18/23
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	06/02/23
Dividend Yield:	3.4%	5 Year Price Target	\$99	Years Of Dividend Growth:	13
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Magna International Inc. is cross-listed on the New York Stock Exchange and the Toronto Stock Exchange, where it trades under the tickers 'MGA' and 'MG', respectively. Magna reports financial results in U.S. dollars. All figures in this report are denominated in U.S. dollars. The company began working with General Motors (GM) back in 1957. Since then, it has become the largest automotive supplier in North America and the fourth-largest in the world. Magna has increased its dividend every year since 2010.

Magna reported its Q1 2023 results on 05/05/2023. For the quarter, its global light vehicle production increased by 3% vs Q1 2022. As well, its sales of \$10,673 million was an increase of 11% year over year. Income from operations before income taxes fell 35% to \$275 million. Consequently, net income declined 43% to \$209 million. Adjusted diluted earnings-per-share ("EPS") of \$1.11 was a decline of 13% year over year. This decline is much more palatable than the results in Q4 2022.

Magna updated its forecast for 2023 after seeing improved results in Q1 and the fact that it's taking action to reduce costs. Specifically, Magna improved its 2023 outlook as follows: about \$41 billion in sales and adjusted EBIT margin of about 4.9%. It expects the interest expense of about \$150 million and an income tax rate of roughly 21% to stay the same as the previous forecast. As a result, we updated our 2023 EPS estimate at \$5.12.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.49	\$4.54	\$4.51	\$5.23	\$5.98	\$6.71	\$6.05	\$3.95	\$5.13	\$4.10	\$5.12	\$9.02
DPS	\$0.64	\$0.76	\$0.88	\$1.00	\$1.10	\$1.32	\$1.46	\$1.60	\$1.72	\$1.80	\$1.84	\$2.96
Shares¹	442	410	402	382	358	327	306	301	302	286	279	246

Magna reported a loss in 2009 due to the global financial crisis of 2007-2008. However, in the decade after that, it recovered remarkably. In 2020, the company's top and bottom lines were greatly dragged down by the COVID-19 pandemic impacts. Regardless of the pandemic, Magna's EPS is highly cyclical and sensitive to economic cycles. Its EPS growth can be bumpy – sometimes increasing by about 2% and other times increasing at a double-digit rate. Moreover, Magna has been investing in electrification and autonomy among other spending, which could pressure margins. Magna compounded its EPS by about 1.8% from 2013 to 2022. The company's earnings were negatively impacted in 2020 because of COVID. Additionally, its 2022 results were dragged by supply disruptions related to the Russian invasion in Ukraine and semiconductor chip shortages as well as high inflation and higher labour costs. We expect above-average growth post 2022 as the company works through input cost headwinds, and the industry recovers and production normalizes. At the end of the day, we estimate an EPS growth rate of 12% and dividend per share (DPS) growth rate of 10% through 2028.

¹ Shares in millions.

Disclosure: Kay Ng owns shares of Magna International.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.0	11.1	11.4	7.6	8.0	8.7	8.3	12.2	18.6	13.5	10.5	11.0
Avg. Yld.	1.8%	1.5%	1.7%	2.5%	2.3%	2.4%	2.9%	3.3%	2.1%	3.1%	3.4%	3.0%

From 2013-2022, Magna traded at an average price-to-earnings ratio of about 10.9. Using our 2023 EPS estimate, the company trades at a price-to-earnings ratio of 10.5, which appears to be fairly valued. However, because we expect earnings to grow at an above-average pace over the next five years, the stock could actually be cheap. From 2018-2022, it averaged a P/E of 12.3. We give the stock a fair P/E of 11.0 because of the cyclical nature of the business.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	17%	20%	19%	18%	20%	24%	41%	34%	44%	36%	33%

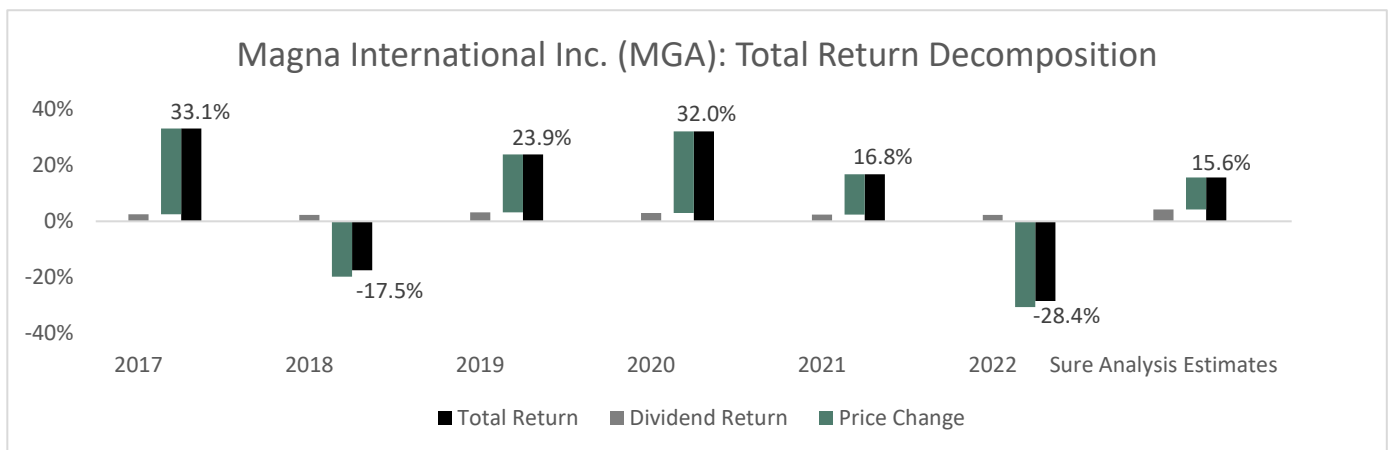
As one of the leading automotive suppliers in the world with about 341 manufacturing operations, Magna benefits from some economies of scale. It's also innovating by investing in electrification and autonomy, which should help keep the company relevant. In the last recession, Magna ran into trouble and operated at a loss and cut its dividend in 2009. It survived through it. Despite bumpy profits through economic cycles, including substantial drops in earnings in 2020 and 2022, Magna still kept increasing its dividend.

Its balance sheet remains in good standing. At the end of Q1 2023, its debt-to-equity ratio was 1.67x. It also had \$2.4 billion of cash and cash equivalents. Furthermore, it's awarded an S&P credit rating of A-. Notably, the company maintains a low payout ratio through economic cycles to provide a big buffer to protect its dividend during stressful times such as in 2020 and 2022. Magna did not disappoint shareholders by keeping its dividend-growth streak. For now, we estimate a 10% DPS growth rate through 2028.

Final Thoughts & Recommendation

The best time to buy a cyclical name like Magna for long-term investment (at least five years) is during an economic downturn when its earnings are greatly impacted and its P/E is high. Currently, we rate Magna as a buy, as we think the stock can deliver total returns of about 15.6% per year from its 3.4% dividend, 12% EPS growth, and 0.9% valuation expansion.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	34,835	34,403	32,134	36,445	36,588	40,827	39,431	32,647	36,242	37,840
Gross Profit	4,548	4,935	4,575	5,322	5,693	5,772	5,409	4,440	5,145	4,652
Gross Margin	13.1%	14.3%	14.2%	14.6%	15.6%	14.1%	13.7%	13.6%	14.2%	12.3%
SG&A Exp.	1,616	1,612	1,448	1,601	1,668	1,664	1,697	1,587	1,717	1,660
D&A Exp.	1,201	977	912	1,191	1,311	1,602	1,602	1,581	1,512	
Operating Profit	1,869	2,478	2,325	2,665	2,841	2,830	2,367	1,487	1,916	1,573
Operating Margin	5.4%	7.2%	7.2%	7.3%	7.8%	6.9%	6.0%	4.6%	5.3%	4.2%
Net Profit	1,561	1,882	2,013	2,031	2,196	2,296	1,765	757	1,514	592
Net Margin	4.5%	5.5%	6.3%	5.6%	6.0%	5.6%	4.5%	2.3%	4.2%	1.6%
Free Cash Flow	1,398	1,327	741	1,459	1,471	2,519	2,519	2,133	1,568	414
Income Tax	360	683	711	706	741	619	591	329	395	237

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	17,990	18,074	19,687	22,566	25,468	25,945	25,790	28,605	29,086	27,789
Cash & Equivalents	1,554	1,249	2,863	974	726	684	1,276	3,268	2,948	1,234
Accounts Receivable	5,246	5,316	5,439	6,165	6,695	6,548	5,927	6,394	6,307	6,791
Inventories	2,637	2,525	2,564	2,804	3,542	3,403	3,304	3,444	3,969	4,180
Goodwill & Int. Ass.	1,627	1,477	1,513	2,544	2,749	2,539	2,460	2,576	2,615	2,483
Total Liabilities	8,351	9,401	10,570	12,347	13,756	14,786	14,659	16,885	16,861	16,454
Accounts Payable	4,781	4,765	4,746	5,430	6,283	6,094	5,628	6,266	6,465	6,999
Long-Term Debt	373	1,025	2,563	3,156	3,562	4,383	3,168	4,102	3,993	3,509
Shareholder's Equity	9,623	8,659	8,966	9,768	11,210	10,701	10,831	11,370	11,836	10,935
LTD/E Ratio	0.04	0.12	0.29	0.32	0.32	0.41	0.29	0.36	0.34	0.32

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.9%	10.4%	10.7%	9.6%	9.1%	8.9%	6.8%	2.8%	5.2%	2.1%
Return on Equity	16.4%	20.6%	22.8%	21.7%	20.9%	21.0%	16.4%	6.8%	13.0%	5.2%
ROIC	15.7%	19.1%	18.8%	16.2%	15.3%	14.9%	11.8%	5.0%	9.5%	3.8%
Shares Out.	442	410	402	382	358	327	306	301	303	291
Revenue/Share	75.47	79.42	77.86	92.69	97.86	117.49	124.86	108.68	119.69	129.95
FCF/Share	3.03	3.06	1.80	3.71	3.93	7.25	7.98	7.10	5.18	1.42

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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