

Magna International (MGA)

\$53.47 (As of 01/14/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

Summary

Magna focuses on innovation and technology development for growth and program launches across its business segments to meet the rising demand for crossover & SUVs. It is expanding its business through joint ventures and hub openings while divesting non-core units. Further, strong cash flow aids Magna to engage in share buybacks and regular dividend payouts in almost every quarter. However, fluctuating foreign currencies and a stronger U.S. dollar along with customer price concessions are likely to hurt the bottom line. Soaring commodity and launch costs, and operational inefficiencies in the seating segment is also a concern. Material decline in global GDP or light vehicle production is expected to negatively weigh on investor sentiments. Other headwinds include, declining consolidated revenues and EBIT margin projections for full-year 2019.

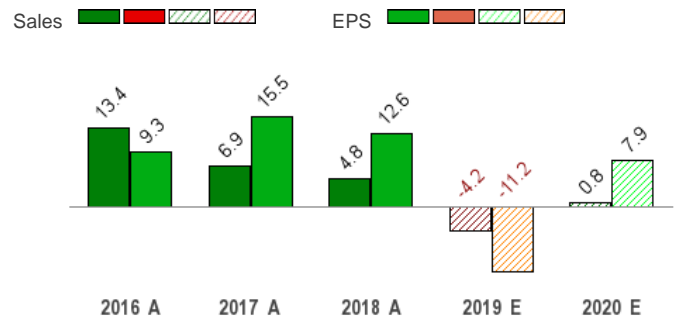
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.09 - \$42.51
20 Day Average Volume (sh)	419,387
Market Cap	\$16.3 B
YTD Price Change	-2.5%
Beta	1.54
Dividend / Div Yld	\$1.46 / 2.7%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 27% (185 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.2%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	02/28/2020
Earnings ESP	0.0%
P/E TTM	8.5
P/E F1	8.3
PEG F1	1.4
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	10,472 E	10,470 E	9,687 E	9,893 E	39,447 E
2019	10,591 A	10,126 A	9,319 A	9,221 E	39,118 E
2018	10,792 A	10,280 A	9,618 A	10,137 A	40,827 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.60 E	\$1.71 E	\$1.55 E	\$1.64 E	\$6.43 E
2019	\$1.63 A	\$1.59 A	\$1.41 A	\$1.30 E	\$5.96 E
2018	\$1.84 A	\$1.67 A	\$1.56 A	\$1.63 A	\$6.71 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/14/2020. The reports text is as of 01/15/2020.

Overview

Magna International Inc., based in Aurora, Canada, is a manufacturer and supplier of complete automotive components. The company designs, develops and manufactures automotive systems, assemblies, modules and components, apart from engineering and assembling complete vehicles, primarily for sale to original equipment manufacturers (OEMs) of cars and light trucks.

The four reportable segments of Magna are —

Body Exteriors & Structures— The segment engages in designing and engineering of body structures, chassis structures, exterior systems & Modules, trim & automotive jewelry, active aerodynamics, and fuel systems. In 2018, the segment contributed 42.9% in Magna's total sales.

Power & Vision— The unit works on improving the mode vehicles move and interact. It works on powertrain electrification, transmissions, powertrain subsystems & components, ADAS & automated driving, control modules, mechatronics, mirrors, and lighting. Last year, the unit's contribution to Magna's total sales was 30.2%.

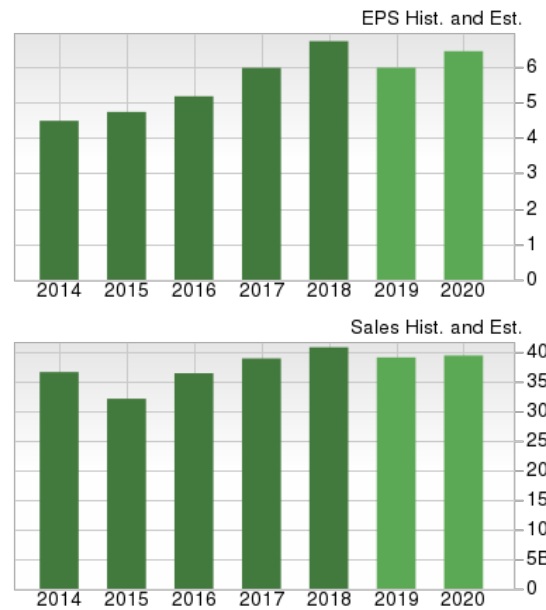
Seating Systems— This business line innovates comfortable and safe vehicle interiors with flexible configurations. It works on seat complete, structural products, and foam & trim. In 2018, the segment contributed 13.6% in Magna's total sales.

Complete Vehicles— Apart from providing complete vehicle manufacturing, the unit offers modular solutions for vehicle parts and systems. It offers complete vehicle engineering and manufacturing. In 2018, the segment contributed 14.7% in Magna's total sales.

Note: The percentage share of segmental revenues in total revenues includes inter-segment sales.

The Canadian vehicle component provider's operations are dependent on growth of auto manufacturing and sales across all the key markets, consisting of North America, South America, Europe, Asia and Africa. In coming years, it expects China, South America, Eastern Europe and India to majorly drive revenue figures.

Magna has 348 manufacturing operations, 174,000 employees, and 91 product development, engineering and sales centers across 28 countries. General Motors, Ford, Fiat Chrysler N.V., BMW AG, Daimler AG and Volkswagen AG are its customers.



Reasons To Buy:

- ▲ Magna is concentrating on innovation and technology development for growth and program launches across its business segments to meet the rising demand for crossover & SUVs. In fact, these program launches are driving the company's top line. Currently, it is actively working to develop ADAS technology that will offer basic safety and convenience functions in vehicles.
- ▲ Magna is expanding business through joint ventures and hub openings while divesting non-core units. Earlier this year, Magna inked a framework agreement for an electric vehicle manufacturing joint venture with an affiliate of BAIC. In August 2019, the company marked the opening of a \$50M electronics manufacturing facility in Michigan which is expected to solidify its presence in Grand Blanc Township and is positioned to continue its leadership in vision-based driver assistance systems. Further, Magna is also set to acquire Wipac Czech s.r.o. to expand its engineering capabilities globally.
- ▲ Magna's contract vehicle assembly facility in Graz, Austria is winning many new business contracts. In June, the facility received contract to manufacture BMW's Z4 model by 2018 end. Earlier in July 2017, it received a contract to produce Jaguar's E-PACE model. Prior to this in June 2017, the company won a contract manufacturing from BMW, under which it will manufacture new 530e plug-in hybrid model for BMW. It has also secured a contract extension on the Mercedes-Benz G-Class. With these, the plant is expected to reach production volumes of around 200,000 vehicles per year
- ▲ Strong cash flow aids Magna to engage in share buybacks and regular dividend payouts in almost every quarter. Further, the firm's low leverage of 21.19% provides adequate financial flexibility to tap its growth opportunities.

Program launches and business expansion through JV's, and hub openings will drive Magna. Focus on innovation, technology development and rising demand for crossover & SUVs also bode well.

Reasons To Sell:

- ▼ Soaring commodity and launch costs, and operational inefficiencies in the seating segment is a concern for Magna. Additionally, electronics unit of the Power and Vision segment is incurring higher level of engineering and other costs on three automated driving systems (ADAS) programs that are using new technologies. In fact, the company expects these costs to increase further in the upcoming quarters of this year as well as 2020, thereby, impelling Magna to reduce its outlook.
- ▼ Fluctuating foreign currencies and a stronger US dollar, along with customer price concessions are likely to hurt Magna's bottom line. In the third quarter of 2019, the company's currency translation experienced a headwind of \$216 million.
- ▼ For the current year, Magna projects consolidated revenues in the range of \$38.7-\$39.8 billion, down from previously mentioned \$38.9-\$41.1 billion. The company also lowered its adjusted EBIT margin of 6.3-6.5%, from the prior guidance of 6.6-6.9% in 2019.
- ▼ Material decline in global GDP or light vehicle production is expected to negatively weigh on investor sentiments. Moreover, Corporate Average Fuel Economy (CAFE) regulations and governments' abilities to assess, legislate, and regulate autonomous driving standards also act as important factors in electric vehicles and ADAS penetration.

Increasing launch and engineering costs and currency fluctuation are likely to hurt Magna's bottom line. Also, lower light-vehicle production will impact the company's revenues in 2019.

Last Earnings Report

Magna Surpasses Q3 Earnings & Revenue Estimates

Magna International delivered adjusted earnings per share of \$1.41 in third-quarter 2019, beating the Zacks Consensus Estimate of \$1.38, mainly aided by increased revenues at the Seating Systems and Complete Vehicles segment. However, the bottom line declined from the year-ago quarter's \$1.56.

The company's revenues declined 3% year over year to \$9,319 million owing to unfavorable foreign currency translation and divestitures. However, the metric surpassed the Zacks Consensus Estimate of \$9,305 million.

Adjusted EBIT declined to \$558 million from the year-ago figure of \$699 million, thanks to the General Motors strike and net customer price concessions.

Segmental Performances

Revenues at the Body Exteriors & Structures segment fell 5% year over year to \$4 billion in the reported quarter due to lower vehicle production, the General Motors strike, unfavorable foreign currency translation, and net customer price concessions. Adjusted EBIT declined to \$306 million from the prior-year quarter's \$326 million, reflecting lower scrap steel recoveries as well as higher commodity, warranty and launch costs.

Revenues at the Power & Vision segment fell to \$2.7 billion from the prior-year figure of \$2.9 billion, largely due to negative foreign currency translation, lower vehicle production, the GM strike and net customer price concessions. Adjusted EBIT declined to \$167 million from \$259 million in third-quarter 2018, mainly because of higher engineering and other costs in the company's ADAS business, and lower equity income.

Revenues at the Seating Systems segment rose to \$1,266 million in the quarter under review from the prior-year \$1,219 million owing to programs launches and the acquisition of VIZA. Adjusted EBIT declined to \$56 million from \$69 million recorded in the prior year. The decline was largely due to lower sales at a number of facilities, higher commodity costs, launch costs and operational inefficiencies at the South Carolina facility.

Revenues at the Complete Vehicles segment rose 9% year over year to \$1.5 billion, primarily driven by the launches of BMW Z4 and Toyota Supra programs as well as continued ramp-up of the Mercedes G-Class and Jaguar I-PACE. Adjusted EBIT grew to \$29 million from \$24 million in third-quarter 2018 on higher sales, and lower launch and other costs.

Financials

Magna had \$769 million of cash and cash equivalents as of Sep 30, 2019, compared with \$684 million as of Dec 31, 2018. It had long-term debt of \$3,021 million as of Sep 30, 2019, reflecting a decline from \$3,084 million recorded as of Dec 31, 2018. The debt-to-capital ratio stands at 21.19%, as of Sep 30, 2019.

At the end of third-quarter 2019, the company's cash flow from operations was \$750 million, in comparison with \$1.08 billion at the end of third-quarter 2018.

Share Buyback & Dividend

During the September-end quarter, the company repurchased 6.8 million shares of common stock for \$342 million.

Magna's board of directors announced a dividend of 36.5 cents per share for the third quarter of 2019, reaching the total to \$109 million.

Guidance

For 2019, the company projects consolidated revenues in the range of \$38.7-\$39.8 billion, down from previously mentioned \$38.9-\$41.1 billion.

The company anticipates adjusted EBIT margin of 6.3-6.5%, reflecting a drop from the prior guidance of 6.6-6.9%.

Magna's free cash flow expectations remain at the range of \$1.9-\$2.1 billion despite the lowering of the consolidated sales and margins projections for 2019.

Quarter Ending **09/2019**

Report Date	Nov 08, 2019
Sales Surprise	0.15%
EPS Surprise	2.17%
Quarterly EPS	1.41
Annual EPS (TTM)	6.26

Valuation

Magna's shares are up 9.6% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the stocks in the Zacks Automotive sector are up 12% and 12.8% respectively, over the past year.

While the S&P 500 index is up 27.3% in the past year.

The stock is currently trading at 8.28X forward 12-month earnings, which compares to 12.94X for the Zacks sub-industry, 10.76X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.36X and as low as 5.93X, with a 5-year median of 7.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 8.82X forward 12-month earnings per share.

The table below shows summary valuation data for MGA:

Valuation Multiples - MGA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.28	12.94	10.76	18.96
	5-Year High	12.36	13.46	11.75	19.34
	5-Year Low	5.93	8.52	8.23	15.17
	5-Year Median	7.72	11.61	9.93	17.44
P/S F12M	Current	0.41	0.63	0.67	3.52
	5-Year High	0.72	0.81	0.76	3.52
	5-Year Low	0.33	0.49	0.5	2.54
	5-Year Median	0.44	0.65	0.62	3
EV/EBITDA TTM	Current	4.21	6.2	8.64	12.12
	5-Year High	6.37	8.66	11.33	12.86
	5-Year Low	3.94	4.63	7.05	8.48
	5-Year Median	5.04	6.63	9.27	10.67

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 254)



Top Peers

Allison Transmission Holdings, Inc. (ALSN)	Neutral
American Axle & Manufacturing Holdings, Inc. (AXL)	Neutral
BorgWarner Inc. (BWA)	Neutral
Dana Incorporated (DAN)	Neutral
Gentex Corporation (GNTX)	Neutral
Lear Corporation (LEA)	Neutral
Cooper-Standard Holdings Inc. (CPS)	Underperform
Garrett Motion Inc. (GTX)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	MGA Neutral	X Industry	S&P 500	BWA Neutral	GTX Underperform	LEA Neutral
VGM Score	B	-	-	A	A	B
Market Cap	16.34 B	772.21 M	24.31 B	8.62 B	772.21 M	8.28 B
# of Analysts	6	3	13	9	3	6
Dividend Yield	2.73%	0.00%	1.76%	1.63%	0.00%	2.19%
Value Score	A	-	-	A	A	A
Cash/Price	0.05	0.10	0.04	0.11	0.28	0.16
EV/EBITDA	4.14	5.10	14.08	5.55	6.80	4.40
PEG Ratio	1.39	1.27	2.06	1.30	NA	3.69
Price/Book (P/B)	1.51	1.46	3.33	1.88	NA	1.89
Price/Cash Flow (P/CF)	4.63	5.07	13.62	6.34	2.05	5.20
P/E (F1)	8.32	11.77	18.86	10.09	3.36	9.22
Price/Sales (P/S)	0.41	0.45	2.65	0.85	0.24	0.42
Earnings Yield	12.03%	8.41%	5.27%	9.90%	29.75%	10.84%
Debt/Equity	0.28	0.41	0.72	0.36	-1.21	0.53
Cash Flow (\$/share)	11.55	3.65	6.94	6.58	5.04	26.33
Growth Score	B	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	9.38%	9.38%	10.56%	9.55%	NA	17.37%
Proj. EPS Growth (F1/F0)	7.80%	7.68%	7.52%	5.05%	-0.11%	10.51%
Curr. Cash Flow Growth	6.78%	6.02%	14.88%	11.56%	-140.59%	5.25%
Hist. Cash Flow Growth (3-5 yrs)	17.78%	10.36%	9.00%	7.21%	NA	16.26%
Current Ratio	1.21	1.56	1.23	1.58	0.86	1.35
Debt/Capital	21.74%	35.95%	42.99%	26.56%	NA	35.84%
Net Margin	4.43%	3.02%	11.14%	7.43%	6.84%	4.21%
Return on Equity	17.59%	14.34%	17.16%	19.43%	-9.05%	22.07%
Sales/Assets	1.49	1.30	0.55	1.00	1.50	1.61
Proj. Sales Growth (F1/F0)	0.84%	1.72%	4.18%	2.36%	-0.25%	2.44%
Momentum Score	F	-	-	D	B	F
Daily Price Chg	0.77%	0.04%	0.08%	0.85%	3.72%	0.46%
1 Week Price Chg	-1.68%	-2.53%	0.39%	-2.22%	-5.64%	-0.31%
4 Week Price Chg	-4.79%	-0.73%	1.93%	-6.50%	-1.81%	-3.29%
12 Week Price Chg	-1.35%	2.02%	6.50%	5.01%	6.06%	9.48%
52 Week Price Chg	6.41%	4.55%	22.56%	5.65%	-23.50%	-6.28%
20 Day Average Volume	419,387	140,975	1,571,506	963,355	869,498	970,680
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.16%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.25%	0.00%	0.00%	-0.13%	0.00%	-2.06%
(F1) EPS Est 12 week change	-2.53%	-4.76%	-0.52%	0.31%	-7.89%	-6.24%
(Q1) EPS Est Mthly Chg	-3.03%	0.00%	0.00%	-0.98%	0.00%	-3.93%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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