

Magna International (MGA)

\$36.82 (As of 05/14/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Magna is likely to feel the heat of the COVID-19 pandemic, which has rattled the auto industry, sending production and sales for a toss. Such unprecedented challenges have prompted the company to withdraw its 2020 outlook and suspend the existing share-repurchase program. Decline in the global light vehicle production is likely to affect the sales and earnings of Magna. Soaring commodity, warranty and launch costs, and operational inefficiencies in the seating segment is a concern for Magna. In fact, the company expects these costs to increase further in 2020, thereby impacting its bottom-line growth. Unfavorable foreign currency translations along with customer-price concessions are also likely to hurt Magna's bottom line. As such, the stock is viewed as a risky bet at the moment.

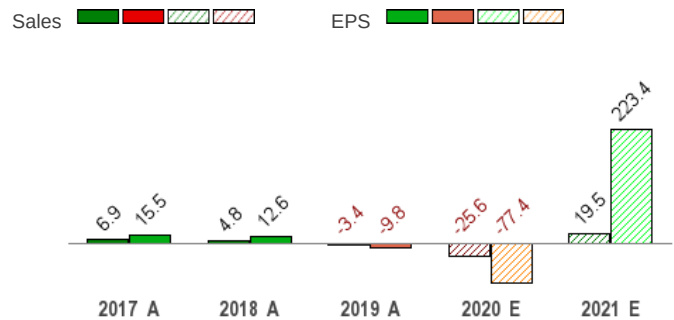
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.09 - \$22.75
20 Day Average Volume (sh)	1,045,132
Market Cap	\$11.1 B
YTD Price Change	-32.9%
Beta	1.63
Dividend / Div Yld	\$1.60 / 4.3%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 24% (193 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.2%
Last Sales Surprise	8.6%
EPS F1 Est- 4 week change	-56.4%
Expected Report Date	08/13/2020
Earnings ESP	0.0%
P/E TTM	7.0
P/E F1	26.9
PEG F1	4.5
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					35,051 E
2020	8,657 A	3,601 E	7,300 E	8,823 E	29,342 E
2019	10,591 A	10,126 A	9,319 A	9,395 A	39,431 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.31 E	\$1.20 E	\$0.96 E	\$1.26 E	\$4.43 E
2020	\$0.86 A	-\$1.67 E	\$0.71 E	\$1.29 E	\$1.37 E
2019	\$1.63 A	\$1.59 A	\$1.41 A	\$1.41 A	\$6.05 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 05/14/2020. The reports text is as of 05/15/2020.

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 2019, the segment contributed 41.1% 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 28.3%.

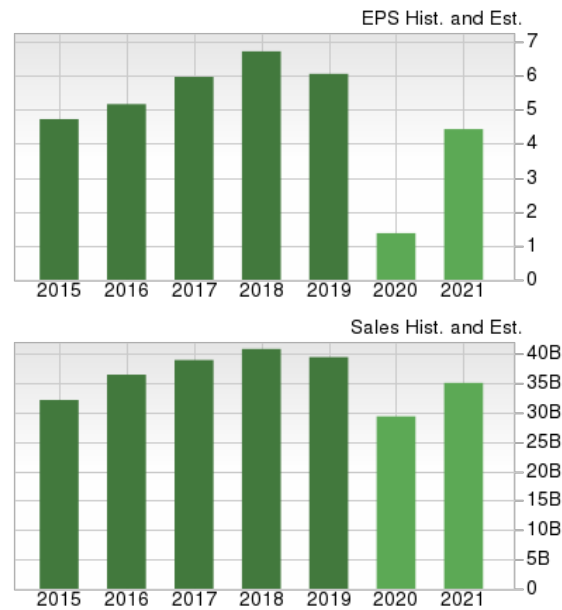
Seating Systems— This business line innovates comfortable and safe vehicle interiors with flexible configurations. It works on seat complete, structural products, and foam & trim. In 2019, the segment contributed 13.9% in Magna's total sales.

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 2019, the segment contributed 16.7% 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 346 manufacturing operations, 165,000 employees, and 94 product development, engineering and sales centers across 27 countries. General Motors, Ford, Fiat Chrysler N.V., BMW AG, Daimler AG and Volkswagen AG are its customers.



Reasons To Sell:

- ▼ Automotive components supplier, Magna, is likely to feel the heat of the COVID-19 pandemic, which has rattled the auto industry, sending the production and sales for a toss. Such unprecedented challenges have prompted the company to withdraw its 2020 outlook. Weak consumer sentiment and decline in the global light vehicle production amid the virus outbreak is likely to affect Magna's sales and earnings in the near future.
- ▼ Soaring commodity, warranty and launch costs, and operational inefficiencies in the seating segment is a concern for Magna. Additionally, the automotive industry is undergoing a significant level of technology change. This technology change will require Magna to make substantial amounts of investment and capital spending in order to evolve its business profile towards new product. Further, 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 flare up further in 2020, thereby impacting the company's top-line growth.
- ▼ Magna expects production volumes to decline in 2020 along with a shift to more sales in contract manufacturing. This business is likely to have lower profit margins that could constrain the company's profit expansion. Moreover, recent trade disputes could result in higher expenses, thwarting the company's profits.
- ▼ Unfavorable foreign-currency translations and customer-price concessions are likely to hurt Magna's bottom line. In 2019, the company's currency translation experienced a headwind of \$1.3 billion. In first-quarter 2020, the company's currency translation experienced a headwind of \$152 million. Further, Magna expects pricing pressures in the near future as the market is competitive. Moreover, the coronavirus crisis has prompted the company to suspend its existing share-repurchase program until further notice.

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 2020.

Risks

- Magna is concentrating on the innovation and technology development for growth and program launches across its business segments to meet the rising demand for crossover & SUVs. These program launches are likely to boost the firm's prospects. Currently, it is actively working to develop ADAS technology that will offer basic safety and convenience functions in vehicles. While these might strain the company's near-term financials, it bodes well for the long term.
 - Magna is expanding business through joint ventures and hub openings while divesting non-core units. Early 2019, 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 \$50-million 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's \$100 million investment in Waymo showcases its commitment to develop new technology. The company is also set to acquire Wipac Czech s.r.o. to expand its engineering capabilities globally.
 - In response to the uncertainty caused by the coronavirus pandemic, Magna has initiated a series of cost savings throughout the enterprise, including substantial staffing adjustments, compensation cuts and drawdowns on revolving credit facilities. The focus on cost discipline is anticipated to provide some respite amid the financial crisis. Notably, the company had a strong cash position of \$1.26 billion as at Mar 31, 2020, as well as term and operating lines of credit totaling \$3.3 billion, of which \$3.1 billion was unused and available as at Mar 31, 2020.
 - Strong cash flow aids Magna to engage in regular dividend payouts in almost every quarter. The firm announced a dividend of 40 cents per share for the first quarter. Further, it had a long-term debt of \$3,021 million as of Mar 31, 2020, reflecting a decline from \$3,062 million recorded as of Dec 31, 2019. The total debt-to-capital ratio stood at 0.23, lower than its industry's 0.43. This favorable reading indicates that the firm is not a very leveraged company. Moreover, the company's times interest earned ratio of 19.25 is favorable to the industry ratio of 8.68.
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Last Earnings Report

Magna Q1 Earnings Surpass Estimates, Down Y/Y

Magna reported adjusted first-quarter 2020 earnings per share of 86 cents, beating the Zacks Consensus Estimate of 74 cents. Higher-than-expected EBIT from the Complete Vehicles segment can be attributed to this outperformance. Precisely, EBIT from the unit came in at \$50 million, topping the consensus mark of \$36.3 million.

However, the bottom line declined from the year-ago quarter's \$1.63. Lower year-over-year revenues across all segments amid coronavirus woes led to the dismal results. The company's total revenues declined 18.3% year over year to \$8,657 million. However, the reported figure surpassed the Zacks Consensus Estimate of \$7,971 million.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	8.61%
EPS Surprise	16.22%
Quarterly EPS	0.86
Annual EPS (TTM)	5.27

Segmental Performances

The Body Exteriors & Structures segment's revenues dropped 14.6% year over year to \$3,676 million in the reported quarter. Lower global light vehicle production amid the COVID-19 pandemic and unfavorable currency translations resulted in soft revenues. Adjusted EBIT declined to \$199 million from the prior-year quarter's \$363 million owing to lower tooling contribution, weak scrap steel and aluminum recoveries, operational inefficiency, as well as reduced sales.

The Power & Vision segment revenues fell to \$2,523 million from the prior-year figure of \$3,083 million. In addition to the negative impacts from forex and coronavirus, divestiture of the FP&C business also affected revenues. Consequently, adjusted EBIT declined to \$135 million from \$216 million recorded in first-quarter 2019.

Revenues in the Seating Systems segment decreased to \$1,261 million in the January-March quarter from the prior-year figure of \$1,433 million due to bleak light vehicle production, unfavorable foreign-currency translation impact and net customer-price concessions. Adjusted EBIT also declined to \$40 million from \$94 million recorded in the prior year amid lower sales, higher launch costs and operational inefficiency.

The Complete Vehicles segment's revenues were down 31.5% from the prior-year quarter to \$1,321 million. Nonetheless, adjusted EBIT grew to \$50 million from \$28 million on the back of a favorable engineering program resolution in first-quarter 2020. Further, a favorable mix within the Mercedes-Benz G-Class complete vehicle assembly program also aided profits.

Financials

Magna had \$1,146 million cash and cash equivalents as of Mar 31, 2020 compared with \$1,276 million on Dec 31, 2019. It had a long-term debt of \$3,021 million as of Mar 31, 2020, reflecting a decline from \$3,062 million recorded on Dec 31, 2019. The long-term debt-to-capital ratio was 0.23. The company generated cash from operating activities of \$639 million during first-quarter 2020.

Dividend & Buyback

During the March-end quarter, it repurchased 4.8 million shares of common stock for \$192 million. During the quarter, the firm paid dividends of \$121 million.

Magna's board of directors announced a dividend of 40 cents per share for first-quarter 2020, payable on Jun 5 to shareholders of record on May 22.

However, amid coronavirus-led uncertainty and financial crisis, the company halted the stock buyback program until further notice. It also refrained from providing annual view for 2020.

Valuation

Magna's shares are down 32.8% in the year-to-date period and down 17.4% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the stocks in the Zacks Automotive sector are down 24.3% and 12.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.5% and 1.5%, respectively.

While the S&P 500 index is down 11.5% in the year-to-date period and down 1.2% in the past year.

The stock is currently trading at 13.11X forward 12-month earnings, which compares to 21.91X for the Zacks sub-industry, 18.43X for the Zacks sector and 20.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.92X and as low as 3.92X, with a 5-year median of 7.67X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$31 price target reflects 11.03X 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	13.11	21.91	18.43	20.67
	5-Year High	14.92	21.91	18.43	20.79
	5-Year Low	3.92	8.52	8.23	15.19
	5-Year Median	7.67	11.61	9.93	17.45
EV/EBITDA TTM	Current	2.9	5	10.35	10.32
	5-Year High	6.38	8.63	11.26	12.86
	5-Year Low	2.17	4.16	6.82	8.28
	5-Year Median	4.94	6.53	9.22	10.77
P/S F12M	Current	0.36	0.59	0.66	3.22
	5-Year High	0.72	0.81	0.76	3.44
	5-Year Low	0.19	0.47	0.5	2.54
	5-Year Median	0.43	0.63	0.62	3.02

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (193 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Allison Transmission Holdings, Inc. (ALSN)	Neutral	4
American AxleManufacturing Holdings, Inc. (AXL)	Neutral	3
Dana Incorporated (DAN)	Neutral	3
Gentex Corporation (GNTX)	Neutral	3
Meritor, Inc. (MTOR)	Neutral	3
BorgWarner Inc. (BWA)	Underperform	4
Garrett Motion Inc. (GTX)	Underperform	4
Lear Corporation (LEA)	Underperform	5

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	MGA	X Industry	S&P 500	BWA	GTX	LEA
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	5	-	-	4	4	5
VGM Score	C	-	-	B	A	B
Market Cap	11.14 B	607.77 M	18.95 B	5.77 B	374.91 M	5.69 B
# of Analysts	5	3	14	9	2	7
Dividend Yield	4.35%	0.00%	2.2%	2.45%	0.00%	3.24%
Value Score	C	-	-	B	A	A
Cash/Price	0.10	0.25	0.06	0.15	0.41	0.41
EV/EBITDA	3.33	4.71	11.58	3.71	5.67	3.53
PEG Ratio	4.49	2.13	2.60	2.63	1.61	5.22
Price/Book (P/B)	1.06	1.04	2.59	1.18	NA	1.35
Price/Cash Flow (P/CF)	3.18	3.47	10.20	4.44	0.99	4.13
P/E (F1)	26.93	19.78	19.00	13.98	3.89	26.99
Price/Sales (P/S)	0.30	0.31	1.93	0.58	0.12	0.30
Earnings Yield	3.72%	3.71%	5.05%	7.16%	25.60%	3.71%
Debt/Equity	0.29	0.49	0.75	0.34	-1.28	0.55
Cash Flow (\$/share)	11.58	3.46	7.01	6.26	5.01	23.00
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	6.86%	7.57%	10.82%	9.34%	NA	9.09%
Proj. EPS Growth (F1/F0)	-77.36%	-51.23%	-10.48%	-51.82%	-66.97%	-74.85%
Curr. Cash Flow Growth	-7.06%	-4.22%	5.68%	-5.66%	0.00%	-17.99%
Hist. Cash Flow Growth (3-5 yrs)	3.82%	5.32%	8.52%	3.79%	NA	7.32%
Current Ratio	1.22	1.56	1.27	1.76	0.86	1.29
Debt/Capital	22.27%	37.82%	44.25%	25.49%	NA	36.65%
Net Margin	2.45%	1.95%	10.54%	7.24%	9.25%	3.15%
Return on Equity	14.75%	13.03%	16.29%	17.15%	-10.56%	16.90%
Sales/Assets	1.43	1.23	0.54	1.00	1.43	1.49
Proj. Sales Growth (F1/F0)	-25.59%	-14.63%	-2.55%	-20.67%	-17.73%	-19.29%
Momentum Score	F	-	-	F	D	F
Daily Price Chg	2.08%	0.00%	1.17%	5.58%	8.30%	2.68%
1 Week Price Chg	7.18%	5.02%	3.23%	8.21%	15.68%	9.54%
4 Week Price Chg	7.47%	6.60%	1.06%	6.76%	22.17%	14.91%
12 Week Price Chg	-29.83%	-30.10%	-22.80%	-20.88%	-40.60%	-23.85%
52 Week Price Chg	-17.43%	-24.24%	-12.40%	-24.12%	-73.28%	-29.25%
20 Day Average Volume	1,045,132	200,220	2,553,422	3,658,429	720,629	632,341
(F1) EPS Est 1 week change	6.53%	0.00%	0.00%	-3.50%	5.08%	0.04%
(F1) EPS Est 4 week change	-56.42%	-19.68%	-5.57%	-29.79%	-33.13%	-53.01%
(F1) EPS Est 12 week change	-78.75%	-63.86%	-16.22%	-50.36%	-57.59%	-75.40%
(Q1) EPS Est Mthly Chg	-509.67%	-56.93%	-11.63%	-186.72%	-851.11%	-1,106.29%

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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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