

Magna International (MGA)

\$49.68 (As of 02/24/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: F

Summary

Magna's surpassed earnings & revenue estimates in the fourth-quarter of 2019. It 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 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, material decline in global GDP or light vehicle production is expected to negatively weigh on investor sentiments. Fluctuating foreign currencies and a stronger U.S. dollar are likely to hurt the bottom line. Soaring commodity and launch costs, and operational inefficiencies in the seating segment is also a concern. Hence, investors are recommended to wait for a better entry point.

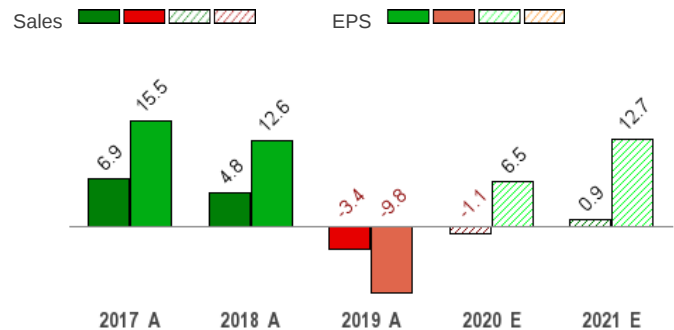
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.09 - \$42.51
20 Day Average Volume (sh)	716,461
Market Cap	\$15.1 B
YTD Price Change	-9.4%
Beta	1.51
Dividend / Div Yld	\$1.46 / 2.9%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 41% (151 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.8%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/14/2020
Earnings ESP	-1.4%
P/E TTM	8.2
P/E F1	7.7
PEG F1	1.3
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					39,335 E
2020	10,472 E	10,470 E	9,687 E	9,893 E	38,988 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					\$7.26 E
2020	\$1.59 E	\$1.69 E	\$1.59 E	\$1.64 E	\$6.44 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 02/24/2020. The reports text is as of 02/25/2020.

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%.

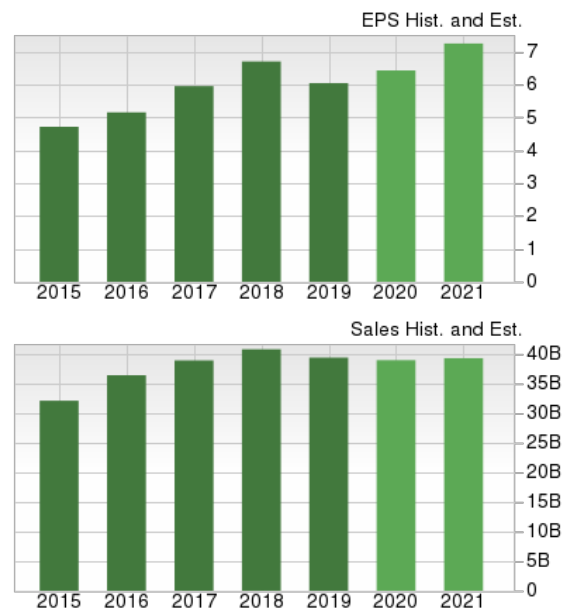
Seating Systems— This business line innovates comfortable and safe vehicle interiors with flexible configurations. It works on seat complete, structural products, and foam & trim. In 2019, the segment contributed 13.9% in Magna's total sales.

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 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. In December 2019, Magna also announced its collaboration with sports car-maker, Ferrari, to develop an innovative, next-generation dual-clutch 8-speed transmission (DCT) for the Ferrari SF90 Stradale.
- ▲ 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. In 2019, the company repurchased 25.8 million shares for \$1.29 billion and paid dividends of \$449 million in the year. Further, the firm's low leverage of 22.63% 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, warranty 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 2020, thereby impacting the top-line growth of the company.
- ▼ Fluctuating foreign currencies and a stronger US dollar, along with 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.
- ▼ 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.
- ▼ Magna's ROE of 16.49% versus industry's 18.96% reflects the management's inefficiency in rewarding shareholders. Also, it is witnessing a continuous rise in SG&A expenses, which may hamper its net income in the future. In 2019, the company incurred SG&A expenses of \$1,697 million compared to \$1,664 in 2018.

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.

Last Earnings Report

Magna Q4 Earnings Surpass Q4 Estimates, Down Y/Y

Magna delivered adjusted earnings per share of \$1.41 in fourth-quarter 2019, beating the Zacks Consensus Estimate of \$1.32. Stellar revenues in the Body Exteriors & Structures, Power & Vision and Seating Systems segments led to this outperformance. However, the bottom-line figure declined from the year-ago quarter's \$1.63.

The company's revenues declined 7.3% year over year to \$9,395 million due to a drop in light vehicle production in North America, the General Motors (GM) strike, unfavorable foreign-currency translation impact and divestiture of the Fluid Pressure & Controls (FP&C) business. However, the reported figure surpassed the Zacks Consensus Estimate of \$9,187 million.

Adjusted EBIT slid to \$590 million from the year-ago figure of \$730 million, primarily due to softer sales.

Segmental Performances

The Body Exteriors & Structures segment revenues dropped 6% year over year to \$3,923 million in the reported quarter due to lower light vehicle production in North America, the GM strike, unfavorable foreign-currency translation impact, and net customer-price concessions. The figure, however, outpaced the Zacks Consensus Estimate of \$3,854 million. Adjusted EBIT declined to \$289 million from the prior-year quarter's \$356 million, reflecting lower scrap steel and aluminum recoveries as well as higher warranty and launch costs.

The Power & Vision segmental revenues fell to \$2,725 million from the prior-year figure of \$2,987 million, largely due to the divestiture of the FP&C business, negative foreign-currency translation impact, lower light vehicle production in North America, the GM strike and net customer-price concessions. However, the segment's revenues surpassed the Zacks Consensus Estimate of \$2,560 million. Adjusted EBIT declined to \$163 million from the \$254 million recorded in fourth-quarter 2018. This downside resulted mainly from elevated engineering costs in the company's ADAS business and higher net warranty costs.

Revenues in the Seating Systems segment decreased to \$1,426 million in the October-December quarter from the prior year's \$1,435 million, due to bleak light vehicle production in North America, the GM strike, unfavorable foreign-currency translation impact, and net customer-price concessions. Yet, the reported figure exceeded the Zacks Consensus Estimate of \$1,392 million. Adjusted EBIT declined to \$79 million from the \$110 million recorded in the prior year. This downside largely resulted from higher commodity, warranty and launch costs.

The Complete Vehicles segment revenues were down 13% to \$1,461 billion, year on year, primarily due to lower volumes of the Jaguar I-Pace and BMW 5-Series and negative foreign-currency translation impact. The revenue figure also missed the Zacks Consensus Estimate of \$1,469 million. Adjusted EBIT grew to \$44 million from the \$24 million witnessed in fourth-quarter 2018 on higher sales, and lower launch and operational improvements.

Financials

Magna had \$1,276 million of cash and cash equivalents as of Dec 31, 2019, compared with \$684 million as of Dec 31, 2018. It had long-term debt of \$3,062 million as of Dec 31, 2019, reflecting a decline from \$3,084 million recorded as of Dec 31, 2018. The long-term debt-to-capital ratio stands at 22.63%, as of Dec 31, 2019.

At the end of fourth-quarter 2019, the company's cash flow from operations was \$1,696 million, in comparison with \$1,598 million at the end of fourth-quarter 2018.

Share Buyback & Dividend

During the December-end quarter, the company repurchased 4.7 million shares of common stock for \$254 million and 25.8 million shares for \$1.29 billion, respectively.

Magna's board of directors announced a dividend of 40 cents per share for the final quarter of 2019, payable on Mar 20, to shareholders of record as of Mar 6, 2020.

Guidance

For 2020, the company projects consolidated revenues of \$38-\$40 billion. Net income is expected to lie between \$1.8 billion and \$2 billion. Magna anticipates adjusted EBIT margin of 6.7-7%, while capital spending is projected at \$1.7 billion.

Quarter Ending 12/2019

Report Date	Feb 21, 2020
Sales Surprise	2.26%
EPS Surprise	6.82%
Quarterly EPS	1.41
Annual EPS (TTM)	6.04

Recent News

Magna Raises Quarterly Cash Dividend by 10%

On **Feb 21**, Magna's board declared a quarterly dividend of 40 cents, payable on Mar 20, 2020 to shareholders of record on Mar 6, 2020. This represents a 10% increase in the dividend.

Valuation

Magna's shares are down 9.4% in the year-to-date period and down 3.6% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the stocks in the Zacks Automotive sector are down 2.6% and up 7.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.7% and 16.7%, respectively.

While the S&P 500 index is up 3.8% in the year-to-date period and 21.2% in the past year.

The stock is currently trading at 7.58X forward 12-month earnings, which compares to 12.99X for the Zacks sub-industry, 11.75X for the Zacks sector and 19.08X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.37X 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 \$53 price target reflects 8.09X 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	7.58	12.99	11.75	19.08
	5-Year High	11.37	13.46	11.75	19.34
	5-Year Low	5.93	8.52	8.23	15.18
	5-Year Median	7.72	11.61	9.93	17.47
P/S F12M	Current	0.39	0.63	0.72	3.51
	5-Year High	0.72	0.81	0.76	3.51
	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	4.2	6.11	9.14	12
	5-Year High	6.37	8.66	11.33	12.87
	5-Year Low	3.94	4.63	7.05	8.48
	5-Year Median	5.02	6.62	9.27	10.77

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (151 out of 255)



Top Peers

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

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	MGA Neutral	X Industry	S&P 500	BWA Neutral	GTX Neutral	LEA Neutral
VGM Score	A	-	-	B	A	B
Market Cap	15.07 B	660.11 M	23.50 B	6.64 B	558.20 M	6.84 B
# of Analysts	6	3	13	9	3	8
Dividend Yield	2.94%	0.00%	1.83%	2.11%	0.00%	2.65%
Value Score	A	-	-	A	A	A
Cash/Price	0.05	0.11	0.04	0.12	0.32	0.21
EV/EBITDA	3.85	4.87	13.56	4.25	6.36	4.87
PEG Ratio	1.27	1.09	2.02	1.14	NA	NA
Price/Book (P/B)	1.41	1.26	3.20	1.37	NA	1.52
Price/Cash Flow (P/CF)	4.30	4.86	13.05	5.14	1.48	4.92
P/E (F1)	7.61	10.54	18.56	8.00	2.48	7.90
Price/Sales (P/S)	0.38	0.42	2.60	0.65	0.17	0.35
Earnings Yield	12.96%	8.83%	5.38%	12.50%	40.35%	12.66%
Debt/Equity	0.28	0.51	0.70	0.35	-1.21	0.51
Cash Flow (\$/share)	11.55	3.69	7.03	6.26	5.04	23.00
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	8.45%	8.01%	10.85%	9.76%	NA	13.63%
Proj. EPS Growth (F1/F0)	6.39%	5.83%	6.90%	-2.61%	-2.17%	2.25%
Curr. Cash Flow Growth	6.78%	-1.10%	6.78%	-5.66%	-140.59%	-17.99%
Hist. Cash Flow Growth (3-5 yrs)	17.78%	7.52%	8.38%	3.79%	NA	7.32%
Current Ratio	1.21	1.56	1.22	1.65	0.86	1.37
Debt/Capital	21.74%	37.82%	42.37%	25.68%	NA	34.89%
Net Margin	4.48%	3.15%	11.57%	7.34%	6.84%	3.80%
Return on Equity	16.49%	13.35%	16.80%	18.68%	-9.05%	19.61%
Sales/Assets	1.44	1.30	0.55	1.01	1.50	1.56
Proj. Sales Growth (F1/F0)	-1.41%	0.32%	4.03%	-1.60%	-0.08%	0.63%
Momentum Score	F	-	-	D	B	D
Daily Price Chg	-3.63%	-4.38%	-2.98%	-5.36%	-7.33%	-5.24%
1 Week Price Chg	0.62%	0.00%	-0.94%	-0.50%	-6.94%	-2.81%
4 Week Price Chg	-3.78%	-2.60%	-0.94%	-16.16%	-17.30%	-13.16%
12 Week Price Chg	-10.24%	-6.86%	1.75%	-24.28%	-38.35%	-7.28%
52 Week Price Chg	-7.05%	-14.00%	10.97%	-23.36%	-54.37%	-26.68%
20 Day Average Volume	716,461	197,864	2,001,782	4,264,307	720,008	665,361
(F1) EPS Est 1 week change	-0.16%	0.00%	0.00%	0.47%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.16%	0.00%	-0.05%	-1.39%	-2.17%	-3.49%
(F1) EPS Est 12 week change	-1.13%	-2.29%	-0.21%	-2.29%	-2.17%	-5.57%
(Q1) EPS Est Mthly Chg	-1.40%	-0.53%	-0.49%	-8.88%	-3.98%	-4.95%

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	A

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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