Magna International Inc. is a diversified global auto supplier. It designs, develops, and manufactures technologically advanced automotive systems, assemblies, modules, and components, and engineers and assembles complete vehicles. The Company sells its products primarily to original equipment manufacturers.

Industry Trends: North American light vehicle production increased 8% in the third quarter of 2014 to 4.2 million units and European light vehicle production increased 4% in the third quarter of 2014 to 4.7 million units, in Asia, light vehicle production increased by 4% and by 10% in china, all compared to the third quarter of 2013. Over the five years to 2019, strengthening economic conditions and returning consumer confidence will fuel the Car and Automobile Manufacturing industry. The Consumer Confidence Index is expected to rise at an annualized rate of 4.9% over this period, as continuous improvements in credit availability and disposable income encourage consumers to sustain interest in purchasing new vehicles. This trend bodes well for automakers, as industry revenue is expected to rise at an annualized rate of 1.6% to $110.6 billion over the same period. In addition, an all-time average age for vehicles on the road of 11.4 years will lead to heavy demand for replacement cars and car parts.

Investment Thesis:
MGA is currently the best positioned automotive suppliers listed in US stock market. From a strategy perspective MGA has a clear advantage on in depth cooperation with OEMs by assembly complete vehicles for them. Based on the company’s stronger Balance sheet, continuous investment and solid manufacturing capabilities, we believe MGA is a buy.

Business Summary: Magna International Inc. is a diversified global auto supplier. It designs, develops, and manufactures technologically advanced automotive systems, assemblies, modules, and components, and engineers and assembles complete vehicles. The Company sells its products primarily to original equipment manufacturers.

Industry Trends: North American light vehicle production increased 8% in the third quarter of 2014 to 4.2 million units and European light vehicle production increased 4% in the third quarter of 2014 to 4.7 million units, in Asia, light vehicle production increased by 4% and by 10% in china, all compared to the third quarter of 2013. Over the five years to 2019, strengthening economic conditions and returning consumer confidence will fuel the Car and Automobile Manufacturing industry. The Consumer Confidence Index is expected to rise at an annualized rate of 4.9% over this period, as continuous improvements in credit availability and disposable income encourage consumers to sustain interest in purchasing new vehicles. This trend bodes well for automakers, as industry revenue is expected to rise at an annualized rate of 1.6% to $110.6 billion over the same period. In addition, an all-time average age for vehicles on the road of 11.4 years will lead to heavy demand for replacement cars and car parts.

Investment Thesis:
MGA is currently the best positioned automotive suppliers listed in US stock market. From a strategy perspective MGA has a clear advantage on in depth cooperation with OEMs by assembly complete vehicles for them. Based on the company’s stronger Balance sheet, continuous investment and solid manufacturing capabilities, we believe MGA is a buy.

Competitive Analysis:
As the fourth largest global automotive supplier, Magna is continuously delivering the best value built on innovative products and processes and World Class Manufacturing. Magna maintains good customer relationship and enjoys a high retention rate. It has develop a strong product portfolio and pipeline which will ensure the revenue rapid growth for the next ten years.

Pros:
- Magna’s manufacturing divisions operate as independent profit centers aligned by geographic region in each of the product areas. This decentralized structure prevents bureaucracy and makes Magna more responsive to customer needs and changes within the global automotive industry, as well as within specific regions.
- Products with innovative technology and superior quality have a strong competitive advantage.
- Economic of scale which enable the company buy in bulk to reduce the cost

Risk Factors:
- Rising dollar could hurt profitability of international sales and make foreign competitor’s products relatively cheap in the domestic market
- A slower-than-expected increase in demand for vehicles in general and for vehicles with high MGA parts content in particular, especially in Europe could put some pressure on sales

Total Return Estimates
3 Yr FV Reversion: 13%
5 Yr FV Reversion: 8%

Key Valuation Assumptions
Est Revenue Growth: 11.9%
WACC: 9.36%
Expected Inflation: 1.7%
Terminal Growth Rate: 4%
10 Yr Risk Free Rate: 2.82%
Equity Risk Premium: 5.9%
Tax Rate: 24.5%

Key Financial Data
Est 2014 EPS: $8.85
Est 2015 EPS: $9.95
3-5 Yr Est EPS Growth: 10%
PEG (TTM): 0.86
Credit Quality: Baa1 (MOODY’S)
ROE: 19.7%
ROA: 10.0%
Price/Book: 1.88
Price/Cash Flow: 7.28
Debt/Equity: 3.87%
Current Ratio: 1.36
Quick Ratio: 0.93

CSR Characteristics (Magna/Industry)
Human Rights: 1/1
Business Ethics Policy: 1/1
ESG Disclosure: 19.83/24.41
Equal Opportunity: 1/1
Emission Reduction: 0/1
Environment Disclosure: 6.2/20.30

Prepared by Xiaoying Gan (November 15, 2014)