



# GNAM Investment Competition

Top Investment Idea:  
Magna International Inc (TOR: CA:MG)

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# Company Overview



**Leading Global Automotive Supplier with 309 manufacturing operations and 99 product development in 29 countries**

- **Magna's Executive Management:**  
CEO-Donald Walker  
CFO - Vincent J. Galifi

- **Product capabilities include producing body, chassis, exterior, seating, powertrain, electronic, vision, closure, and roof systems and modules, as well as vehicle engineering and contract manufacturing**

## Strengths:

- International presence
- Dominant distribution network: GM, Ford & Chrysler
- Strong financial performance

## Weaknesses:

- Few large key customers/ concentration risk
- High reliance on North American Markets (56% of sales)

## Opportunities:

- Develop and expand B2C network
- Increasing demand in developing countries

## Threats:

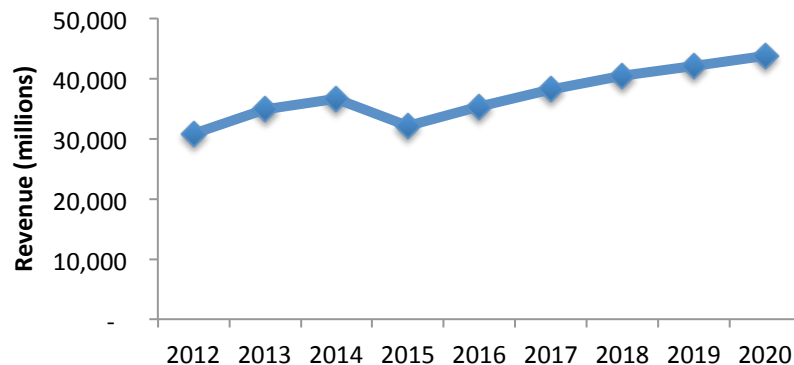
- Forex fluctuations
- Increased competition eroding market share
- Dependence on oil & steel prices



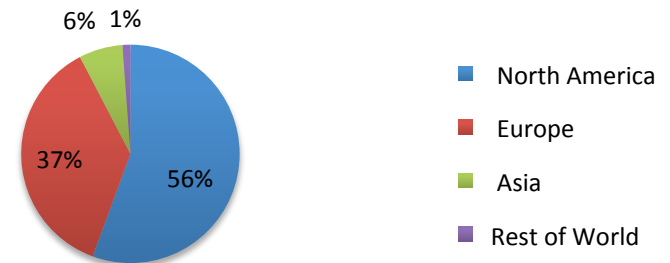
# Investment Rational

- ***North America's Exposure has been heavily discounted in current price***
- ***Underestimating upside***
- ***Favorable Risk/Reward***
- ***Share Buyback opportunities***
- ***Strong balance sheet with very little debt and strong liquidity ratios***

### Revenue



### Q2 Sales by Region





# Company Overview

Magna International Inc. (TSE:MG)

**54.41** -0.12 (-0.22%)

Oct 28 - Close  
TSE data delayed by 15 mins - Disclaimer  
Currency in CAD

Range	54.00 - 54.86	Div/yield	0.32/2.38
52 week	42.09 - 70.90	EPS	6.63
Open	54.43	Shares	384.50M
Vol / Avg.	902,195.00/967,575.00	Beta	1.14
Mkt cap	20.71B	Inst. own	48%
P/E	8.21		

## Year to Date Relative Magna's Stock Price vs. S&P TSX

● S&P TSX +13.65% ● MG -3.04%

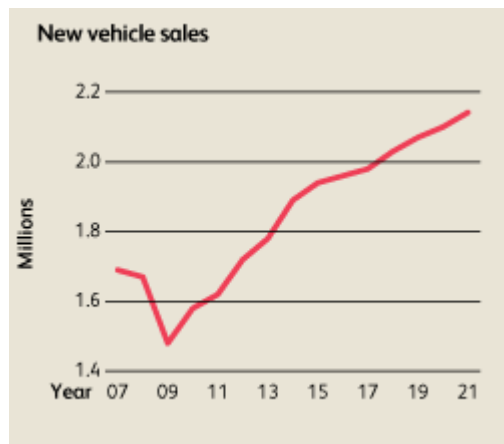




# Market Overview – Macro Outlook

## Growth Potential:

- Auto Parts and Accessories Manufacturing Industry expected to grow at an annualized rate of 3.5% globally to \$2 trillion USD over the next five years
- Members of emerging market middle classes are buying more automobiles than ever, due to globally rising income levels
- Global increase in per capita incomes, annualized at 1.9% will boost consumer spending on personal vehicles increasing global production of automobiles



SOURCE: IBISWORLD



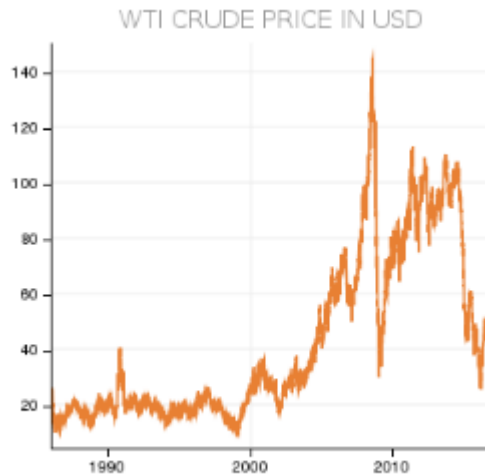
SOURCE: IBISWORLD



# Market Overview – Macro Outlook

## Commodity prices:

- OPEC's World Oil Outlook on November 8<sup>th</sup>, 2016 at the Abu Dhabi International Petroleum Exhibition and Conference will most likely suggest minimal or stagnant growth to the price of oil for the remainder of Q4 2016 and for Q1 2017
- Low price of crude oil has however, greatly benefited the industry and will continue to do so for Magna international
- Steel prices increased throughout 2016 (up 76% ytd), however the current market price (\$300/tonne) is down 37.50% from the start of 2015



Company  
Overview

Market  
Overview

Competitor  
Analysis

Valuation

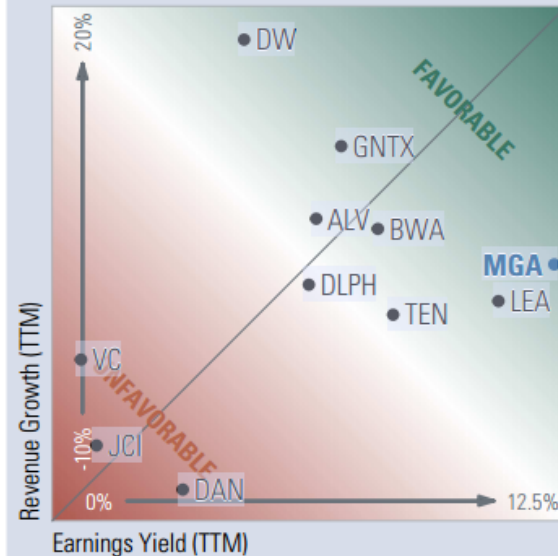
Risks

Conclusion

# Competitor Analysis

- Largest 75 players in the industry only account for 43.3% of the total market share
- Magna focuses on providing innovative designs and processes in addition to areas where direct labour costs are relatively low
- Magna: 2nd highest sales figures with 2% sales growth in 2015 as compared to 3 of its key competitors

REVENUE GROWTH AND EARNINGS YIELD



PEER GROUP: Auto Components

Ticker	Company Name
<b>MGA</b>	<b>MAGNA INTERNATIONAL INC</b>
ALV	AUTOLIV INC
LEA	LEAR CORP
BWA	BORGWARNER INC
GNTX	GENTEX CORP
JCI	JOHNSON CONTROLS INTL PLC
TEN	TENNECO INC
VC	VISTEON CORP
DW	DREW INDUSTRIES INC
DAN	DANA INC
DLPH	DELPHI AUTOMOTIVE PLC

Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -8.2% and 18%. Magna is in the favorable range as compared to competitors.

Company	Sales (US\$ Bln) Fiscal Year ending 2015	Sales Growth
Magna International Inc	31.646	2.00%
Lear Corporation	18.211	2.70%
Hyundai Mobis	32.958	-0.50%
Delphi Automotive PLC	15.165	-10.90%

Source: thestreet.com



# Valuation

	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Assumptions</b>									
Sales Growth (% Change)	7.3%	13.0%	5.2%	-12.3%	10.0%	8.0%	6.0%	4.0%	4.0%
Cost of Goods Sold (% of Sales)	87.6%	86.9%	86.3%	85.8%	85.8%	85.8%	85.8%	85.8%	85.8%
Selling, general and adm (% of Sales)	4.9%	4.6%	4.7%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Equity income (% of Sales)	0.49%	0.56%	0.58%	0.63%	0.60%	0.60%	0.60%	0.60%	0.60%
Effective income tax rate	18.5%	18.9%	26.0%	26.8%	26.8%	26.8%	26.8%	26.8%	26.8%
Interest (% of Debt)	4.4%	4.8%	2.9%	1.7%	3.6%	3.6%	3.6%	3.6%	3.6%
Repayments of debt					211	23	7	4	1
Dividends pay (% Net Income)	17.6%	18.2%	16.8%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%
<b>DCF</b>									
Sales	30,837	34,835	36,641	32,134	35,347	38,175	40,466	42,084	43,768
Cost of goods sold	27,019	30,287	31,623	27,559	30,315	32,740	34,704	36,093	37,536
<b>Gross Profit</b>	<b>3,818</b>	<b>4,548</b>	<b>5,018</b>	<b>4,575</b>	<b>5,033</b>	<b>5,435</b>	<b>5,761</b>	<b>5,992</b>	<b>6,231</b>
Selling, general and administrative	1,510	1,616	1,707	1,448	1,591	1,718	1,821	1,894	1,970
<b>EBITDA</b>	<b>2,308</b>	<b>2,932</b>	<b>3,311</b>	<b>3,127</b>	<b>3,442</b>	<b>3,717</b>	<b>3,940</b>	<b>4,098</b>	<b>4,262</b>
<i>% of Sales</i>	<i>7.5%</i>	<i>8.4%</i>	<i>9.0%</i>	<i>9.7%</i>	<i>9.7%</i>	<i>9.7%</i>	<i>9.7%</i>	<i>9.7%</i>	<i>9.7%</i>
(-) Changes in NWC					-165	-112	-91	-64	-67
(-) Capex					-1,767	-1,909	-2,023	-2,104	-2,188
(-) Taxes					-732	-761	-772	-761	-751
<b>FCF</b>					<b>777</b>	<b>935</b>	<b>1,054</b>	<b>1,168</b>	<b>1,256</b>
Terminal Value									25,965
<b>Net FCF</b>					<b>777</b>	<b>935</b>	<b>1,054</b>	<b>1,168</b>	<b>27,221</b>
<b>NPV FCF</b>					<b>777</b>	<b>868</b>	<b>909</b>	<b>935</b>	<b>20,245</b>





# Valuation

## Intrinsic Value

Enterprise Value	23,734
(+) Cash	2,863
(-) Debt	-2,557
Equity Value	24,040
Equity Value / Share (USD)	60.19
<b>Equity Value / Share (CAD) – Target Price</b>	<b>80.58</b>

## Market Value

Market Cap	16,269
(+) Debt	2,557
(-) Cash	-2,863
Enterprise Value	15,963

**Price TSX - 27 Oct 2016 (CAD) 54.53**

**Target Price Upside 47.8%**

Share Price Sensitivity analysis		Terminal Growth Rate				
		3.5%	3.0%	2.5%	20%	1.5%
WACC	6.5%	110	102	96	91	88
	7.0%	100	94	90	86	83
	7.5%	93	88	85	82	80
	8.0%	87	83	81	78	76
	8.5%	82	79	77	75	73
	9.0%	78	76	74	72	71

- Our five-year forecast includes a very conservative scenario modeled around a 5.5% revenue CAGR.
- Assumes EBITDA margins to remain constant, Capital Expenditure level of 5.0% of Sales, and ratios of all relevant balance sheet accounts are based on the average of last years.
- Assumes WACC of 7.7%, which includes Magna's sensitivity to the economic cycle and the high degree of equity in the capital structure.



# Risks

- **Foreign Exchange Implications:**
  - **Huge speculations regarding US rate hike in December 2016**
  - **Magna's U.S. reported revenue was \$107 million below the actual increase in revenue due to weaker currency relative to the U.S. dollar**
- **Magna relies heavily on Detroit automakers for almost 50% of sales**
- **The cyclical nature of the automotive industry as well as its capital intensity make it susceptible to large changes in profitability during downturns**
- **Highly competitive industry and input costs are volatile resulting in unpredictable margins**



# Conclusion

**Recommendation: BUY Magna International**

**Current Price: CAD 54.41**

**Target Price: CAD 80**

**Upside Potential: 47%**

**Current Dividend Yield: 2.4%**

What moves you drives us...Invest in Magna!

