

Magna Intl

Lightweight 4Q, but hot stamped by 2026

– 4Q:23 quick take

Maintain Rating: BUY | PO: 77.00 USD | Price: 58.68 USD

4Q:23 miss on higher SG&A and lighter equity income

MGA reported 4Q:23 adjusted operating EPS of \$1.33, below our estimate of \$1.50, and Bloomberg consensus of \$1.47. The miss was largely driven by higher SG&A costs and lighter than expected equity income. Total 4Q revenue grew 9% YoY to \$10.45bn (+4% ex-forex and acquisitions versus global LV production of +7%), just below our estimate of \$10.68bn and in-line with consensus. Note that the company disclosed a \$275m revenue impact from the UAW strike. EBIT margin of 5.3% came in 40bps below our estimate of 5.7%. Combined, this drove total adjusted EBIT of \$558mm, lower than our estimate of \$610mm and consensus of \$572mm.

Conservative 2024 outlook, 2026 in line with BofAe

MGA released its 2024 financial outlook, which includes sales of \$43.8bn-\$45.4bn (BofAe \$46.4bn) with an adjusted EBIT margin of 5.4%-6.0% (BofAe 6.1%). Equity income (included in EBIT) is projected to reach \$120m-\$150m (BofAe \$194m). Combined with interest expense of \$230m and a tax rate of 21%, 2024 outlook results in a projected net income of \$1.6bn-\$1.8bn (BofAe \$2.0bn). Using MGA's estimated FY24 share count, this implies an EPS range of about \$5.58-\$6.28 versus BofA of \$7.10 and consensus of \$6.64. 2024 capex is expected to approximate \$2.5bn. We note that MGA 2024 outlook is conservatively based on a flat to down global vehicle production while we think that 2024 will be another year of recovery of production volumes. MGA also released its preliminary outlook for 2026, which at a high level includes revenue of \$48.8bn-\$51.2bn (BofA \$49.7bn) and adjusted EBIT margin of 7.0-7.7% (BofAe 7.7%).

Segments light, ex-Complete Vehicles

Body Exterior & Structures revenue grew 4.3% YoY to \$4.18bn (BofAe \$4.34bn), posted an EBIT margin of 6.7% (BofAe 7.0%), which translates into EBIT of \$280m (BofAe \$304mm). Power & Vision revenue up 25.2% YoY to \$3.77bn (BofAe \$3.73bn), with an EBIT margin of 6.1% (BofAe 6.4%), driving EBIT of \$231mm (BofAe \$240m). Seating Systems revenue increased 6.2% YoY to \$1.43bn (BofAe \$1.47bn), and EBIT margin was 3.1% (BofAe 4.6%), resulting in EBIT of \$44mm (BofAe \$76m). Complete Vehicles revenue declined 9.7% YoY to \$1.20bn (BofAe \$1.26bn), with a better than expected EBIT margin of 3.6% (BofAe 1.8%), resulting in EBIT of \$43m (BofAe \$23m).

High quality company, maintain Buy

MGA reported softer 4Q:23, partially attributable to the UAW strike impact and higher spending on megatrends. The company reported also its outlook for 2024, which reflects steady improvement of the operating environment, but a conservative global volume production outlook. The operating issues MGA experienced in 4Q:22 seem to be largely resolved and, as new awards for battery enclosures and the Veoneer acquisition start to contribute to operating results, give us confidence that MGA will outperform for years to come. With this in mind, we maintain our Buy rating.

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Equity

John Murphy, CFA
Research Analyst
BofAS
+1 646 855 2025
johnj.murphy@bofa.com

John P. Babcock
Research Analyst
BofAS
+1 646 743 0046
john.p.babcock@bofa.com

Federico Merendi
Research Analyst
BofAS
+1 646 556 2798
federico.merendi@bofa.com

William Healey
Research Analyst
BofAS
+1 646 855 5747
william.healey2@bofa.com

Stock Data

Price (NYS / TOR)	58.68 USD / 78.90 CAD
Price Objective	77.00 USD / 105.49 CAD
Date Established	28-Nov-2023 / 28-Nov-2023
Investment Opinion	B-1-7 / B-1-7
52-Week Range	46.71 USD - 66.60 USD
Market Value (mn)	17,770 USD
Free Float	99.6%
Average Daily Value	57.95 USD
Shares Outstanding (mn)	302.8 / 302.8
BofA Ticker / Exchange	MGA / NYS
BofA Ticker / Exchange	YMG / TOR
Bloomberg / Reuters	MGA US / MGA.N
ROE (2023E)	13.9%
Net Dbt to Eqty (Dec-2022A)	19.3%
ESGMeter™	Medium

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MGA: Magna

UAW: United Auto Workers

LV: Light Vehicle

Exhibit 2: MGA YoY and variance table versus BofAe

MGA reported 4Q:23 adjusted EPS of \$1.33 versus BofAe \$1.50

Income Statement	YoY Comparison			Variance vs BofA		
	Actual 4Q:23	Actual 4Q:22	Var YoY	Actual 4Q:23	BofA 4Q:23	Var vs BofA
Sales	10,454	9,568	9.3%	10,454	10,680	-2.1%
Cost of sales	8,961	8,403	6.6%	8,961	9,269	-3.3%
Gross profit	1,493	1,165	28.2%	1,493	1,411	5.8%
SG&A	566	477	18.7%	566	486	16.5%
Depreciation and amortization	372	349	6.6%	372	360	3.3%
Equity Income	(3)	(17)	-82.4%	(3)	(45)	-93.3%
Adjusted Operating Income	558	356	56.7%	558	610	-8.5%
Interest expense, net	53	17	211.8%	53	49	8.2%
Other expense (income), net	-	-	na	-	-	na
Earnings before taxes	505	339	49.0%	505	561	-10.0%
Income Taxes	95	62	53.2%	95	113	-16.3%
Net Income	410	277	48.0%	410	447	-8.4%
Noncontrolling interest	(27)	(16)	68.8%	(27)	(18)	50.0%
Income to MGA	383	261	46.6%	383	429	-10.9%
Shares	286.6	286.3	0.1%	286.6	286.8	-0.1%
Diluted EPS	1.33	0.91	46.4%	1.33	1.50	-10.8%
Margins						
Gross margin	14.3%	12.2%	210	14.3%	13.2%	110
SG&A	5.4%	5.0%	40	5.4%	4.6%	90
Operating Income	5.3%	3.7%	160	5.3%	5.7%	(40)
Tax Rate	17.0%	17.4%	(40)	18.8%	20.2%	(140)
Net Income	3.9%	2.9%	100	3.9%	4.2%	(30)

Segments	YoY Comparison			Variance vs BofA		
	Actual 4Q:23	Actual 4Q:22	Var YoY	Actual 4Q:23	BofA 4Q:23	Var vs BofA
Segment Revenue						
Body Exteriors & Structures	4,178	4,004	4.3%	4,178	4,344	-3.8%
Power & Vision	3,775	3,016	25.2%	3,775	3,727	1.3%
Seating Systems	1,429	1,345	6.2%	1,429	1,474	-3.0%
Complete Vehicles	1,201	1,330	-9.7%	1,201	1,260	-4.7%
Corporate and Other	(129)	(127)	1.6%	(129)	(125)	3.2%
Net Sales	10,454	9,568	9.3%	10,454	10,680	-2.1%
Segment Income						
Body Exteriors & Structures	280	198	41.4%	280	304	-7.9%
Power & Vision	231	109	111.9%	231	240	-3.9%
Seating Systems	44	13	238.5%	44	68	-35.1%
Complete Vehicles	43	57	-24.6%	43	23	89.6%
Corporate and Other	(40)	(21)	90.5%	(40)	(25)	60.0%
Adjusted Operating Income	558	356	56.7%	558	610	-8.5%
Margins						
Body Exteriors & Structures	6.7%	4.9%	180	6.7%	7.0%	-30
Power & Vision	6.1%	3.6%	250	6.1%	6.4%	-30
Seating Systems	3.1%	1.0%	210	3.1%	4.6%	-150
Complete Vehicles	3.6%	4.3%	-70	3.6%	1.8%	180
Corporate and Other	31.0%	16.5%	1450	31.0%	20.0%	1100
Adjusted Operating Margin	5.3%	3.7%	160	5.3%	5.7%	-40

Source: Company filings, BofA Global Research

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Price objective basis & risk

Magna Intl (MGA / YMG)

Our \$77 price objective on MGA US (CAD105.49 for MG CN) is based on an EV/EBITDA multiple of roughly 6x on our 2024 estimates, above the historical average of roughly 5.0x, which we believe reflects MGA's superior long-term positioning, and expertise of the complete vehicle/components that provides the company with a competitive advantage amid the ongoing industry evolution and technological advancement (Big Bang).

Downside risks: 1) a flatline or decline in the US SAAR and NA production volumes for longer than expected, 2) inability to deliver on projected growth targets in emerging markets, 3) stress at key customers, most notably the Detroit Three.

Upside risks: 1) strength in global auto production volumes, particularly in North America, 2) expansion into China market, 3) continued execution and progress on restructuring programs and margin expansion, 4) shareholder-friendly actions including accretive M&A and share repurchases support earnings and the stock.

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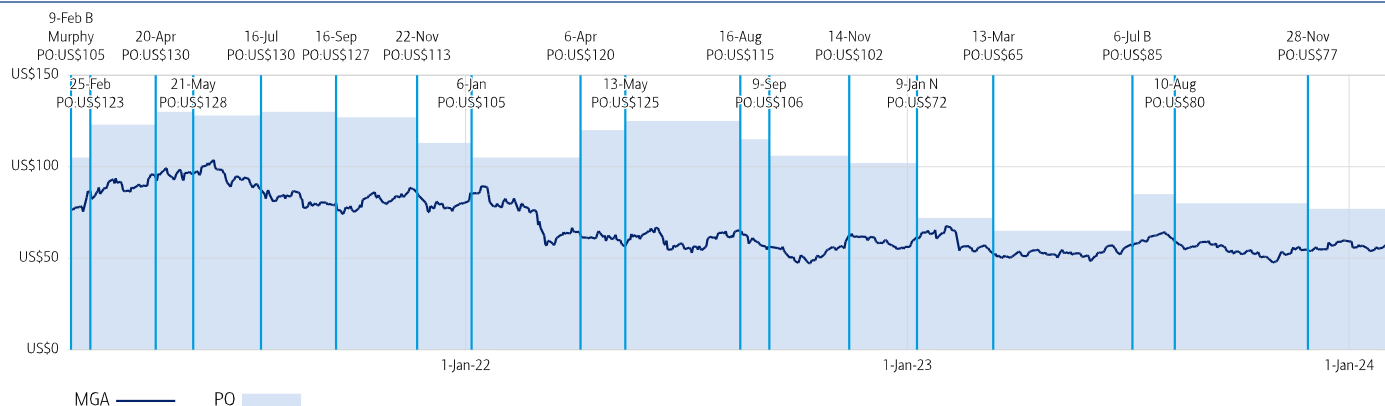
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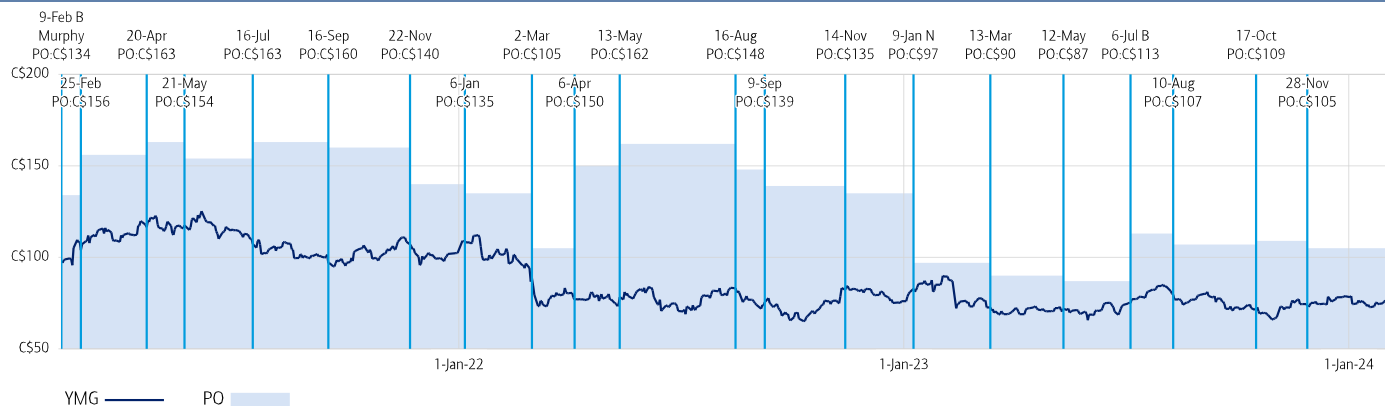
Magna Intl (MGA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Magna Intl (YMG) Price Chart



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Equity Investment Rating Distribution: Autos Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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