

# Investor's Digest

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## 'Best Buys' from leading analysts

*Analysts follow as many as 20 stocks, most of which are rated "buys." Of those buys, an analyst has one or two special favorites seen as most suitable for new buying. This column is devoted to those one or two favorite "best buys."*

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On June 1, 2009, General Motors filed for bankruptcy protection. As ranked by total assets, it was the fourth-largest corporate reorganization in U.S. history. This event was a sign of how severe the credit crisis was. Ultimately, the Canadian and U.S. governments stepped in to supply emergency funding. While GM captured the headlines, the challenges spilled over to all auto manufacturers, and for auto parts suppliers, the pain was magnified.

For the CIBC Canadian Equity Value Fund and the Renaissance Canadian Core Value Fund, disruptions like these create valuation discrepancies that allow us to buy great companies at attractive prices and enabled the funds to build a position in Magna.

Founded in 1957, Magna has become one of the top five global parts suppliers by consistently increasing the content it provides per vehicle. Headquartered in Aurora, Ont., Magna has 263 plants and factories in 26 countries. Prior to the credit crisis, Magna had reported 24 consecutive years of revenue growth. The company has a proven ability to design, engineer

and manufacture complex parts and sub-systems for customers around the world.

Magna is currently one of the largest relative holdings in the funds, on account of its leadership position in a rationalized supplier base, strong balance sheet, improved corporate governance and attractive valuation.

In the post crisis world, the auto manufacturers saw the logic in consolidating their supplier base to the strongest and most dependable suppliers. Many of the smaller auto supply companies didn't receive access to government capital and went bankrupt.

While technological expertise, manufacturing capabilities, flexibility and responsiveness remain important in choosing suppliers, it was financial viability that took on a greater importance for the auto manufacturers. Since the auto parts business remains competitive, the exit of many suppliers creates an environment where the survivors are likely to experience above trend revenue growth in the near term.

Magna navigated the credit crisis with a conservative balance sheet. CEO Don Walker, has ex-

pressed a desire to put Magna's strong balance sheet to work by investing in new facilities abroad and by making acquisitions. Recent investments in Europe and Asia, along with acquisitions in South America, indicate that Magna is following through. Prudent investment of Magna's excess capital will help fuel the company's future growth.

While 2010 did see a rebound in automotive production, particularly in North America, the industry continues to operate at well below pre-crisis levels. The recovery could take several years and provide an underpinning of growth to Magna and its peers. European markets have also been recovering, while in the developing world, growth continues virtually unabated. As for Magna, it has experienced growth in North America, Europe and in developing markets around the world.

Magna's corporate governance has also undergone a seismic shift. In 2010, in a controversial move, Magna collapsed its subordinate voting share structure by buying founder Frank Stronach's super voting shares for \$900 million in

cash and common stock. While this transaction was seen by many as a final act of governance transgression, it cleared the way for a simpler, more shareholder friendly equity structure. Magna has since initiated a number of favorable shareholder programs, such as developing a more independent board of directors, dividend increases and share buybacks.

With the changes in Magna's share structure, ownership is now more widely held. For a private-equity firm or existing competitor, Magna, with its global platform, strong balance sheet and strong free cash flow generation, makes an attractive acquisition target.

Despite many positive changes, Magna still trades at a discounted valuation to both its peers and its own historical valuation levels. Magna represents an opportunity to acquire an industry leader with a global business, technological leadership and strong balance sheet at an attractive price. We expect that with a renewed focus on shareholder value, Magna will deliver consistent earnings and dividend growth.

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