Canadian auto parts makers poised for green gains

Reuters

TORONTO (Reuters) - A push by U.S. automakers to build more fuel efficient vehicles is playing to a strength of Canada's auto parts makers and positions them to pick up market share as the industry emerges from recession.

The Detroit-based automakers face a simple choice: adapt or die. Foreign-based manufacturers that specialize in smaller, greener vehicles are eating their lunch in car showrooms across the country, while U.S. fuel and emissions standards have tightened, forcing innovation.

That's good news for Canadian companies such as Magna International Inc, Linamar Corp, and Martinrea, all of which could benefit from their expertise in areas like weight reduction and advanced powertrains, analysts said.

"They are very well positioned because their larger customers, particularly General Motors, Ford and Chrysler, have had no money to put into research and development for the last few years, so they have been relying on the auto parts makers to invest in research and development on their behalf," said Michael Willemse, an analyst at CIBC Capital Markets in Toronto.

Shares of Linamar have risen nearly sevenfold in value since March, when the survival of both GM and Chrysler was in doubt. Martinrea shares have climbed five and a half times in value over the same period and Magna's stock has doubled.

Magna is particularly active in developing green technology. The company, which has nearly $1 billion in net cash, has made investments in technologies for electric vehicles and fuel efficiency a priority.

"I would regard Magna as extremely strongly positioned because of its technical capabilities," said David Tyerman, an analyst at Genuity Capital Markets in Toronto.

On Friday, Magna announced a partnership with the government of Canada on a new research facility for the development of thermoplastic composites, designed to cut the weight of structural car parts and make vehicles more fuel-efficient and affordable.

"It is absolutely critical that every vehicle part and/or system be focused on making a contribution to lower emissions and better fuel economy," said Don Walker, Magna's co-chief executive.

Like Magna, Brampton, Ontario-based Martinrea uses a technique called hydro-forming to make cost-effective, strong, lightweight parts. It also uses newer metal

forming technologies, like hot stamping, to make lightweight pieces.

On the components side, Magna launched a joint venture with Switzerland's Brusa Elektronik in March to develop applications to target the wave of hybrid electric, plug-in hybrid, and electric vehicles being developed by the major automakers.

Magna also has the advantage of having full vehicle engineering and developing capability, due to its Magna Steyr facilities in Austria, said Tyerman. On top of building vehicles on contract for companies like BMW and Mercedes-Benz, it produces lithium-ion battery systems for Volvo's industrial fleet vehicles.

Aurora, Ontario-based Magna, which is working with Ford to bring a lithium ion battery-powered car to North America, has already built it own electric vehicle concept car -- the Mila EV -- to showcase its expertise.

FUEL EFFICIENCY A MUST

The push toward fuel efficiency comes as the U.S. government tries to wean the country off its dependence on foreign oil, while reducing greenhouse gas emissions. The initiative will boost fuel efficiency by 40 percent over current standards by 2030.

Reducing the mass of a vehicle will help achieve those tighter standards, as will improvements in propulsion systems, said Bill Pochiluk, president of West Chester, Pennsylvania-based consulting firm Automotive Compass.

"If you could only do one thing in Canada to support the supply base ... you would really support the heck out of powertrains," he said. "It's an area where there's still lots of room to grow, lots of room for improvement."

Guelph, Ontario-based Linamar is one company that has made big strides in powertrain development, said Genuity's Tyerman.

Rather than developing hybrid or electric propulsion systems, Linamar has focused mainly on making a more efficient internal combustion engine, which is still expected to be the dominant powertrain over the next 20 years.

"Linamar may be the largest beneficiary, proportionally, of all this over the next five, 10, 20 years," said Tyerman. "They are less diversified, so what they do is directly driven by fuel efficiency, and because they are a big player, they are benefiting from the rush to new engines and transmissions."

($1=$1.07 Canadian)

(Reporting by John McCrank; editing by Rob Wilson)

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