



How the Situation in Ukraine Could Hurt Canadian Companies

Description

As the situation in Ukraine continues to escalate, the ripple effects are continuing to reach beyond its borders. Russia remains firm in its occupation of Crimea and despite pleas and threats of economic sanctions.

Can Russia's actions hurt Canadian companies? And what would happen if Russia returned the western sanctions with sanctions of its own (which is rumored as a possibility)? Trade between Russian and Canada only totaled \$2.8 billion in 2012, but there are a handful of Canadian companies that could be affected.

Canadian companies at risk

Despite the situation unfolding, **Bombardier** ([TSX:BBD.B](#)) is continuing its talks for a joint venture in Russia to manage the final assembly of the Q400 turboprop aircraft. This deal was expected to close later this year, as part of a larger U.S. \$3.4 billion deal Bombardier made with Rostec (an industrial and defense conglomerate) and Ilyushin Finance Co for 100 Q400 turboprops.

IMAX ([TSX:IMX](#))([NYSE:IMAX](#)) has also seen significant growth in Russia, capped off with the recent release of *Stalingrad*, the first-ever Russian film in IMAX 3D. There is also a newly announced deal with MORI CINEMA to open five more IMAX theaters in Russia.

BlackBerry ([TSX:BB](#))([NASDAQ:BBRY](#)) has also invested increasingly into Russia. In 2012, the company launched an expansion partnership with ASBIS Group, one of the leading distributors of consumer and professional electronics in Eastern Europe and the Middle East. This has expanded BlackBerry's footprint by thousands of mobile retail locations.

This is just a sampling of the companies that could be affected directly by a Russian economic retaliation. There are also other companies such as **Cameco** ([TSX:CCO](#))([NYSE:CCJ](#)), which does not operate in Russia directly, but rather in Kazakhstan. A strong ally of Moscow, Kazakhstan could enforce Russian policy's and keep the west out of its uranium reserves.

Commodities affected

Beyond individual companies this standoff presents several other concerns to investors in commodities. For example, Ukraine is projected to be the sixth largest exporter of wheat and the third largest exporter of corn in 2013-2014. Grain exports make up 24% of the nation's total exports, and 25% of the global exports of wheat come from Black Sea nations. Most of those exports leave the country through the ports of Crimea, making it a key shipping center along with its navy installations.

A drawn-out ordeal in Crimea could send shockwaves through global commodities markets and eventually affect the prices at your local grocery stores, increasing prices and putting further pressure on retailer's already razor-thin margins.

Crude and natural gas prices

Another key piece of infrastructure located in Crimea is a major natural gas pipeline that provides 40% of Europe's supply. As a whole, 76% of exported Russian natural gas flows into Europe, with the U.K., Germany, Italy and France consuming the majority of it.

If Russia were to "turn off the taps" as it did with Ukraine a few years ago, it could dramatically damage the market. Even if Russia only hordes and drives up the price of natural gas it could affect companies such as **Westport Innovations Inc.** (TSX:WPT)([NASDAQ:WPRT](#)), which relies on the lower price of natural gas to market to companies and individuals looking to save money with natural gas engines.

Russia is also the world's third largest producer of crude oil and has the ability to drive up or drive down prices if it wishes. Over the past week tensions alone have pushed prices in Vancouver BC by \$0.07 per liter pushing the price to \$1.42 per litre. When there is uncertainty like we are seeing in Ukraine, fuel prices are the first to react. Any increases in price will have multiplied effects on companies like **WestJet**, which is already feeling the pinch of a lower loonie, and **CN Rail**, which is already struggling to reduce operating costs.

Foolish bottom line

I am not a proponent of fear-mongering journalism and I wish for the situation to be resolved quickly and peacefully. But for investors, certain realities must be considered, and provisions must be made to offset the unforeseen. Because sometimes just when you think you're winning a game of checkers someone comes along and starts playing chess.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)
2. NYSE:BB (BlackBerry)
3. TSX:BB (BlackBerry)
4. TSX:BBD.B (Bombardier)

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