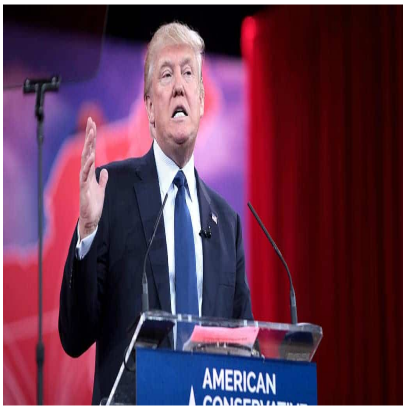

Will Trump’s Trade Wall Crush This Canadian Company?

Description

Trump is loud; he is inflammatory; and much of what he says is now being taken with a grain of salt due to the inability of his administration to push through bills expected to bring to fruition a number of campaign promises made that were expected to be pushed through within his first 100 days as president.

That said, in my opinion, two of Trump’s threats made referencing Canada are particularly worrisome for **Martirea International Inc.** (TSX:MRE): (1) a gradual depreciation of the U.S. dollar to keep the U.S. competitive with the rest of the world on trade; and (2) a border adjustment tax on goods exported from Canada, of which automotive accounts for a significant piece of the pie.

Trump has taken a strong stance on trade during his campaign and more recently during his presidency. His tone on trade has begun to strengthen, indicating to me that Martinrea’s performance over the next four years may not be as good as advertised right now.

Earnings strength starting to fade

Martinrea announced earnings this week, reporting higher-than-expected net income in the first quarter of 2017, although revenue dipped slightly. European and North American sales have continued to be robust, and many analysts are expecting that this demand strength will continue into the second quarter.

That said, Martinrea’s executive chairman Rob Wildeboer has indicated on a recent interview that he believes the company has “plateaued,” suggesting that a “peak doesn’t necessarily mean a big decrease,” referencing market sentiment that the company’s U.S. and European sales may have hit all-time highs and that global demand for auto parts will not be as robust as some have suggested.

General Motors has recently indicated that it expects to see slower growth in China as well — a country which has largely taken the reins as the global demand driver.

With Martinrea reporting in Canadian dollars and the vast majority of its revenues coming from outside Canada, currency translation is something analysts keep their eye on. Of late, the lower Canadian dollar relative to currencies such as the U.S. dollar has been beneficial for the company; should Trump really change the direction of the U.S. dollar over the course of the next four years, Martinrea may be affected.

A border adjustment tax would also be something that would seriously impact Martinrea; the company reports a significant percentage of its earnings in the U.S. market. While the auto parts maker has done a relatively good job of diversifying its global portfolio, any border adjustment tax on goods sold to the U.S. will have a material impact on earnings moving forward.

Bottom line

The auto parts sector is one which has been a potential target of scrutiny by the new Trump administration, and with these threats now being retaliated on by Prime Minister Trudeau of late, Martinrea may not be in for the smoothest ride over the coming four years.

Stay Foolish, my friends.

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