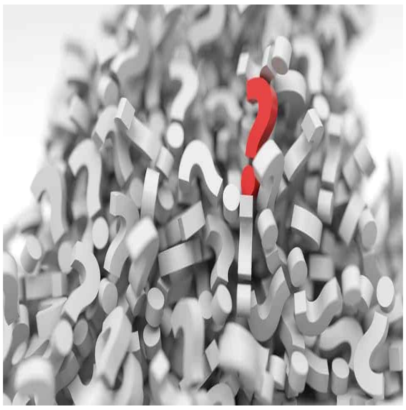

NAFTA on the Brink: How Will Canadian Manufacturing Stocks React?

Description

As the fourth round of NAFTA negotiations got underway, officials from all sides appear to be growing increasingly skeptical about the future of the agreement. Ahead of this round, officials from the U.S. were reportedly preparing to bring forth demands. On October 11, Prime Minister Justin Trudeau said the renegotiation process has not gone well.

Throughout much of the process, many experts and analysts were cautiously optimistic in spite of a report earlier this year that Trump was prepared to scrap the agreement with an executive order before being talked out of it by cabinet members.

The spat between **Bombardier, Inc.** (TSX:BBD.B) and **Boeing Co.** has heightened trade tensions after the U.S. Department of Commerce ruled against Bombardier. The new CSeries was hit with a 300% duty, which shocked Canadian and United Kingdom officials. Prime Minister Trudeau said that the Canadian military would not follow through with its purchase of Boeing aircraft if the duties remained.

In any case, the Trump administration has proven that it will more than willing to turn its protectionist rhetoric into action. With that in mind, let's take a look at stocks that could be impacted if the deal is ultimately scrapped.

Winpak Ltd. (TSX:WPK) is a Winnipeg-based manufacturer and distributor of packing materials. Shares of Winpak have increased 16% in 2017 as of close on October 12. However, the stock has dropped 7.5% over a three-month period. The company released its second-quarter results on July 27. Revenue jumped to $217.7 million from $204 million in Q2 2016, while net income was up marginally to $26.6 million compared to $26.1 million.

Though the results were solid, Winpak has experienced downward pressure due to a higher Canadian dollar following two interest rate hikes in July and September. Winpak recently completed facility expansions in Georgia and Illinois.

Linamar Corporation (TSX:LNR) is the second-largest automobile parts manufacturer in Canada. The stock has climbed 34% in 2017 and 38% year over year. On August 2, Linamar released strong second-quarter results with sales up 6.6% from Q2 2016. Net earnings were up 9.7% to $161.9 million. In July, CEO Linda Hasenfratz stressed that the robust agreement could use modernization, but that scrapping it entirely would have major consequences due to how interwoven the three major North American economies are.

Automobile manufacturing was a big topic in the U.S. election, and the Trump administration appears determined to include stipulations that would rebalance output on the continent. In an interview, Hasenfratz pointed out that 80% of global production and sales of vehicles are outside North America. Linamar has looked to take advantage of this development, and it appears unlikely that it will take a major hit no matter how negotiations go.

Should investors prepare for short-term destabilization?

Prime Minister Trudeau has been vocal in his support for the agreement, but comments from President Trump suggest that the administration is open to a bilateral agreement between the U.S. and Canada. A pact excluding Mexico would still have tremendous impact on North American manufacturing, but it could mitigate the short-term shock for the northernmost nations.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)
2. TSX:LNR (Linamar Corporation)
3. TSX:WPK (Winpak Ltd.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/13
Date Created
2017/10/17
Author
aocallaghan