Better Buy: Stelco Holdings Inc. or Russel Metals Inc.?

Description

In a recent article, I'd discussed the September 2017 manufacturing survey released by Statistics Canada. Manufacturing sales rose 0.5% in September to $53.7 billion. In Ontario, which made up almost half of manufacturing sales in Canada at $24.4 billion, sales fell in primary metal industries by 3.6%.

The ongoing NAFTA renegotiations, which have taken a sour turn in recent months, have sparked general anxiety in Canadian manufacturing. The Bank of Canada estimated that investment in Canada could experience a 0.7% decline if NAFTA is scuttled. In October, I'd covered stocks that could experience downward pressure if the three sides are unable to salvage the agreement.

Let's compare two stocks that could be impacted by these trends and make a determination over which is the better buy moving forward.

Stelco Holdings Inc. (TSX:STLC) is a Hamilton-based steel company. Stelco stock debuted on the Toronto Stock Exchange on November 3. Shares have increased 11.5% since its initial public offering; as of close on November 24, the stock was priced at $17. Stelco plans to use the raised capital to make inroads in the auto industry, where it previously had a strong foothold.

Stelco released its third-quarter results on November 13. Revenue declined 10% to $336 million in comparison to $373 million in the third quarter of 2016. Stelco failed to post operating profits compared to $44 million in the previous year. The company did report positive performance year to date. Year-to-date revenue was up 16% to $1.15 billion compared to $990 million in the first three quarters of 2016.

Russel Metals Inc. (TSX:RUS) supplies metal products to the United States and Canada and is based in Mississauga. Shares have climbed 12.8% in 2017 and 2.5% month over month. The company released its third-quarter results on November 8.

Russel Metals posted revenues of $851 million compared to $639 million in the third quarter of 2016. Net income jumped to $34 million from $16 million in the prior year. Year-to-date revenues have increased to $2.47 billion from $1.92 billion in Q3 2016, and net income climbed to $160 million compared to $74 million. Revenues in the metals service increased 19% due to a 10% rise in tonnes shipped compared to the third quarter of 2016.

Russel Metals stock also boasts a dividend of $0.38 per share, representing a 5.2% dividend yield.

Which should you buy?

Stelco recently emerged from bankruptcy protection after being hampered in court since 2014. The company has ambitions to re-emerge as a top supplier in the Ontario auto sector. Canada has posted record automobile sales in 2017, but an end to NAFTA could spell complications in the industry. Stelco also faces ongoing pressure to fund the losses in at-risk pension funds, which could put a cap on investment in operations going forward.

Russel Metals has shown impressive growth in successive quarters and boasts an attractive dividend. Even with pressure in the Canadian manufacturing sector resulting from NAFTA renegotiations, the stock is a solid long-term buy.

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