



Better Bet in 2018: Bombardier, Inc. vs. Canfor Corporation

Description

The next round of NAFTA negotiations will take place in Montreal from January 23 to 28. Officials from Mexico, Canada, and the United States apparently made some progress when it came to online commerce in the November meetings, but serious obstacles remain regarding manufacturing, dairy, and other trade disputes.

The sour turn during negotiations has discouraged some onlookers and was cited by the Bank of Canada as it decided to hold on its benchmark interest rate heading into 2018. However, a number of companies have taken hits from the new protectionism pushed by the Trump administration.

Let's look at two companies that have wrestled with the U.S. today. We will then determine what stock to hold in 2018.

Bombardier, Inc. ([TSX:BBD.B](#))

Bombardier stock has climbed 40.2% in 2017 as of close on December 27. Things were looking bleak for Bombardier after the U.S. Department of Commerce slapped on duties of 300% in response to an appeal from U.S.-based **Boeing Co.** European multinational Airbus SE leaped in to acquire a majority stake in its CSeries project, and the stock boomed on the news.

Shares have increased 44% in a three-month span dating back to September 27. In late October, I'd [covered](#) the deal and delved into why it could be a mixed result for Bombardier in the long term. Initially, it appeared that Airbus would be able to beat back the U.S. Department of Commerce by promising to build the CSeries in its Alabama plant.

On December 20, the U.S. Department of Commerce shattered this hope by finalizing duties that totaled 292% on the CSeries aircraft. The Quebec government vowed to contest the duties, while Bombardier leadership expressed its deep disappointment in the act. The final decision now rests with the U.S. International Trade Commission, which is expected to occur in February.

Canfor Corporation ([TSX:CFP](#))

Canadian softwood lumber producers are facing roughly \$1.3 billion in U.S. duties in 2018. This is after the U.S. Department of Commerce finalized the duties in November. Canfor was hit with a 20.52% final duty. Canfor stock has climbed 64.1% in 2017 but is down 5.6% month over month. In November, I'd [discussed](#) the final U.S. duties and whether Canadian lumber stocks could be crippled moving forward.

Canfor and other softwood lumber producers are likely to pass higher costs on to consumers, which will limit any serious damage going forward. Canada has also filed appeals under the Chapter 19 dispute resolution mechanism and through the World Trade Organization. The fate of Chapter 19 is yet to be determined. The U.S. delegation requested that it be scrapped early in negotiations.

What stock is the better bet going forward?

Bombardier will be forced to continue its operations at Alabama facilities, even if the duties are fully implemented in February. Increasingly, it appears that Airbus will be the big long-term winner from the deal. Bombardier CEO Alain Bellemare has said that the company will focus on generating cash flow and paying down its \$9 billion debt in 2018 rather than push forward on aerospace ambitions.

Canfor looks like the better option heading into the new year. Canadian softwood lumber producers still have a small hope in Chapter 19 depending on the ultimate fate of NAFTA. Even if that fails, Canfor and others are confident that earnings will remain strong as higher fees are passed on to buyers.

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