



## NAFTA Negotiations to Recommence: Keep an Eye on These 2 Stocks!

### Description

The next round of NAFTA talks will be held in Montreal from January 23 to 28. The Canadian government has reportedly been preparing for a United States withdrawal from the agreement, but there is still hope for reconciliation. **Royal Bank of Canada** CEO Dave McKay recently said that the chances of NAFTA being scuttled are rising. He also echoed statements from key officials that it would be better to walk away from the table than to accept a harmful new deal.

There is a belief among some in the Canadian and Mexican delegations that U.S. President Trump will move to submit a termination letter as a negotiating tactic. Such a move would prove timely, as Trump is currently facing domestic pressure after the release of a scathing book by journalist Michael Wolff. In spite of a strong U.S. economy, a soaring stock market, and winning his first legislative achievement with tax reform in December, Trump's approval ratings remain in the high 30s.

**Saputo Inc.** ([TSX:SAP](#)) is a Montreal-based dairy company and one of the top 10 processors in the world. Its stock fell 2.26% on January 10 and has declined 5.4% in 2018. [The U.S. took aim](#) at the Canadian supply management system during NAFTA negotiations in October. Canadian officials dismissed the demands to wind down the system over the next decade. Interestingly, Saputo leadership has been fairly open to the prospect of ending supply management.

The company released its fiscal 2018 second quarter results on November 2. Net earnings fell 3.4% year over year to \$185.2 million. In Canada the company reported lower sales volumes and operational difficulties. Meanwhile, the U.S. sector experienced higher sales volumes and higher international prices of cheese and dairy ingredients. The company also announced a quarterly dividend of \$0.16 per share with a 1.5% dividend yield.

Dalhousie University and the University of Guelph recently released the *2017 Canada Food Price Report*. Overall food prices are expected to rise 1% to 3%, with dairy experiencing one of the slower increases at 0% to 2%.

**Linamar Corporation** ([TSX:LNR](#)) dropped 1.91% on January 10, but has been mostly flat to start the year. Negotiations turned especially sour with Mexico and Canada standing against U.S. demands to

increase the minimum NAFTA origin auto parts threshold from 62.5% to 85%. The U.S. also demanded that 50% of auto content come from the U.S.

This policy would be particularly [damaging to Linamar](#), which currently possesses around 27% of its fixed assets in the U.S. Further, Linamar CEO Linda Hasenfratz has stated that this is irrelevant, as there is little chance that the auto content demand from the U.S. will be met under any circumstances.

Like other auto parts manufacturers, Linamar would be subject to a significant adjustment period if NAFTA is terminated. This adjustment would come after a banner year for the auto sector in Canada, as the country posted record vehicle sales. Linamar saw auto parts sales increase 6.5% in the third quarter, and net earnings before non-recurring items jump 9.2%. The stock also offered a modest dividend of \$0.12 per share with a 0.65% dividend yield.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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2. TSX:SAP (Saputo Inc.)

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