



## Trump's Steel Tariffs to Impact Stelco Holdings Inc.

### Description

Trump's protectionist trade agenda rocked the markets late last week as he announced his intention to impose tariffs on foreign steel and aluminum. The steel tariff is expected to be a hefty 25%, while the aluminum tariff is to be 10%. The tariffs are expected to go into effect as early as this week, and, as per Trump, "are expected to last a long time." This is not great news for **Stelco Holdings Inc.** ([TSX:STLC](#)). Since the announcement, Stelco's share price has dropped 6.5%, and the worst may be yet to come.

Stelco has seen its fair share of ups and downs over the course of its 107-year history. Unfortunately, the tariff news comes at a bad time for the company. After emerging from bankruptcy, the company only recently IPO'd this past November. Despite its past struggles, investors were quick to jump on its IPO, and the company's share price has risen by approximately 33% since it started trading on November 3, 2017.

Investors may have been overly optimistic about its future and were most likely swayed by the lack of Canadian publicly traded steel companies. Stelco has no publicly traded peer, and it was the first steel company worldwide to IPO since 2010. There was clearly pent-up demand, and Stelco's IPO came at an opportune time.

A 25% steel tariff would hit the company's bottom line. Stelco would need to absorb the costs or pass the additional costs on to consumers. Over the last six months of 2017, the U.S. accounted for approximately 14% of Stelco's sales. Although this may not seem high, the U.S. auto industry is one of the company's primary growth targets. The auto industry is expected to be one of the hardest hit with this new trade policy.

Since Trump's announcement, the company has not commented publicly, but other key players in the industry have. Joseph Galimberti, president of the Canadian Steel Producers Association, and Ken Neumann, director of Canada's United Steelworkers, both used the term "decimate" to describe the potential impact to the Canadian steel industry. The backlash on Trump's recent protectionist announcements has been swift. Experts have correlated his policies to those which caused the Great Depression, and there exists plenty of uncertainty in the investing community.

### **Expect volatility**

Although the impacts are not fully known, industry experts agree that a 25% steel tariff could have devastating effects. Are we poised for a trade war? Will Stelco hit financial troubles yet again? It's too early to tell, but Canada indicated that it will take "responsive measures," and other governments have indicated much of the same. Stelco is currently trading at a price to book above four, and investors have enjoyed a great return since its IPO. Until more details emerge, investors should expect significant volatility in the stock.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. TSX:STLC (Stelco Holdings Inc.)

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