



Auto-Parts Manufacturers Poised for Gains After Big NAFTA Breakthrough

Description

NAFTA negotiations have been mired in uncertainty, and auto-part manufacturers have been identified as a group of companies that are particularly vulnerable to the outcomes of these negotiations. The main issue at the heart of the uncertainty was the Trump-led requirement that all vehicles made in Canada and Mexico contain at least 50% of U.S. content if exported into the country.

Great news for auto-part manufacturers hit the wire, as it appears the U.S. has dropped this contentious demand. The demand was largely considered to be the main sticking point preventing NAFTA negotiations from moving forward. With this provision in the rear-view mirror, a NAFTA settlement is now looking more likely. Auto-parts manufacturers can now breathe a sigh of relief, and investors can take advantage.

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) was perhaps the least impacted, and its share price has shown no signs of impact with a one-year return of approximately 28%. The company is the top supplier to **General Motors**, **Ford**, and **Fiat Chrysler Automobiles N.V.** It is estimated that Magna already had 48% of its North American plant and equipment in the U.S. The company also made it clear that the uncertainty around NAFTA negotiations would have no impact on its decision making.

Exco Technologies Limited ([TSX:XTC](#)), however, has clearly been impacted. Investors have suffered through a 21% loss in share price over the past year, and the company took steps to reduce planned acquisition activity. At the time that the auto-content demand was made known, Exco was actively looking purchase a company with Mexican operations. However, company CEO Brian Robbins stated at the time, “we’re putting any further investment or acquisition on hold until we know how things are going to work out.” Now that this threat has passed, expect the company to renew its merger and acquisition activity, which should help propel the stock higher.

Industry experts expected **Linamar Corporation** ([TSX:LNR](#)) to be one of the most impacted by the NAFTA threats. Canada's second-largest auto-parts manufacturer is estimated to have only 27% of its plant and equipment south of the boarder. Like Magna, Linamar had no plans to delay investments and forged ahead with its investment plans. The positive news will surely please its CEO Linda Hasenfratz, who said, "There is no chance that country-specific content will be agreed to by Canada or Mexico."

It appears that Magna and Linamar were correct in not making any rash decisions. Unfortunately, Exco was overly cautious and may have missed out on potential accretive acquisition. Regardless, the news is a boon not only for auto-parts companies, but for the industry as a whole, and these companies should react favourably to the positive outcome.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)
4. TSX:XTC (Exco Technologies Limited)

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