

3 Auto Manufacturing Stocks to Watch in May

Description

The last week of April reportedly brought the United States, Canada, and Mexico closer to a deal, but [NAFTA negotiations](#) are still ongoing as of the early morning of April 30. Reports have varied from all sides in recent weeks, with some expressing optimism that a deal is imminent and others giving a longer timeline. In any case, some details are emerging that are of interest to investors.

According to recent reports, NAFTA negotiators are refining proposals that would increase North American auto content requirements and favour production in high-wage jurisdictions. This would heavily favour the United States and Canada and punish Mexico. Jeff Rubin, a senior fellow at Canada's Centre for International Governance Innovation, has said that the auto sector could face a long-term decline if these changes are implemented.

It is difficult to determine if a deal will be reached within the next few weeks. In the meantime, let's take a look at three auto stocks that could be impacted by the new proposals going forward.

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) stock has climbed 7.7% in 2018 as of close on April 27. Magna is the largest auto parts manufacturer in Canada. Rubin predicts that companies like Magna will opt to pay the tariff rather than adjust practices that could ultimately lead to higher costs.

"If I was a shareholder at Magna, or GM, I know what I would be telling management to do," Rubin said. "Instead of tripling wage costs, pay the tariff." Under the current proposal, NAFTA would impose a 2.5% tax on cars that did not meet the requirements.

In 2017, Magna put together an impressive year, as it reported record sales of \$38.9 billion — up 7% from the prior year. It also posted record diluted earnings per share of \$9.50 and record cash from operations of \$3.3 billion. The company also hiked its quarterly dividend by 20% to \$0.33 per share, representing a 1.9% dividend yield.

Linamar Corporation ([TSX:LNR](#)) stock has dropped 0.64% in 2018 so far. However, shares have climbed 25% year over year. U.S. auto content demands were of [particular interest to Linamar](#), as the initial proposal in 2017 would have resulted in complications, as the company does not possess a substantial footprint south of the border, at least compared to Magna.

Linamar also reported a very positive 2017. Sales grew to \$6.54 billion compared to \$6 billion in the prior year, and adjusted net earnings increased to \$534.3 million over \$522.1 million in 2016. Linamar posted double-digit content-per-vehicle growth in every single one of its regions worldwide. The company also declared a dividend of \$0.12 per share, representing a 0.6% dividend yield.

Exco Technologies Ltd. ([TSX:XTC](#)) stock has climbed 10.3% month over month as of close on April 27. The company released its fiscal 2018 second-quarter results on April 25. It posted earnings per share of \$0.25 in the quarter and sales of \$148.3 million. The company also declared a dividend of \$0.085 per share, representing a 3.2% dividend yield.

CATEGORY

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

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Date

2025/08/25

Date Created

2018/04/30

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