Don’t Sweat Tariffs: Russel Metals Inc. (TSX:RUS) Is a Buy-Low Opportunity

Description

Canadian steel stocks took a beating after the White House announced that it would impose tariffs on steel imports of 25% on Canada and other key allies. This represented another stage in what has been a roller-coaster year for the industry. The Trump administration had originally exempted Canada from steel tariffs, but elected not to extend the exemption after NAFTA talks failed to net a deal in April and May.

According to recent reports, Treasury Secretary Steven Mnuchin urged President Trump to exempt Canada from the aforementioned steel and aluminum tariffs. Mnuchin pointed to the $2 billion steel surplus for the U.S. and the more than $25 billion service surplus it has with Canada. The reporting from an ABC News source indicates that Trump is “still deciding on what to do about Canada.”

There is reason to be hopeful that Canada will be able to wriggle out of the crippling steel and aluminum tariffs, but investors must deal with the current reality. With that in mind, I want to focus on one stock today that may be oversold in the aftermath of this landmark decision. That stock is **Russel Metals Inc.** (TSX:RUS).

Russel Metals stock dropped 1.37% on June 5, and shares are down 2.9% over the past week. However, the stock is up 18.9% year over year, and leadership was confident in March when the threat of tariffs loomed large.

Back in early March, the Trump administration initially suggested that no country would be exempt from steel and aluminum tariffs. “The impact for us can be nothing but positive, because higher steel prices are good for us,” said CFO Marion Britton in a phone interview back in March. “We are not impacted like a Canadian steel mill because we don’t ship anything to the U.S.”

Russel Metals released its first-quarter results on May 1. Revenues rose to $931 million compared to $804 million in Q1 2017. Net income climbed to $38 million, or $0.62 per share, compared to $30 million, or $0.48 per share, in the prior year. Earnings were powered by higher steel prices and volumes in addition to internal operating efficiencies.

Revenues in metal service centres rose 18% to $455 million with the average selling price up 8% year over year. In addition to this, revenues in the steel distributors segment increased 21% to $94 million. This was also boosted by higher North American steel prices and stronger demand in the Canadian operation. President and COO John Reid commented: “Details of the 232 trade actions in the U.S. are coming into focus around exemptions and quota announcements that to date have improved the overall mill utilization rates and pricing.”

The board of directors also approved a quarterly dividend of $0.38 per share, representing an attractive 5.3% dividend yield.

The reporting from inside the White House suggests there is still furious debate in the Trump administration over the handling of the trade file. A temporary levy could actually boost earnings for

Russel Metals in the coming weeks, as the company pointed out in March. Investors should consider this a buy-low opportunity for a quality high-yield stock.

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