Wing It or Steer Clear of These 2 Cheap Transport Stocks?

Description

Canadian investors in the domestic auto industry have been eyeing threats of U.S. tariffs in that sector with some disconcertion. Is this the time to sell, or should shareholders in potentially affected entities stick it out?

While auto tariffs could disrupt the Canadian economy should they be applied, value investors may be able to profit from their mere suggestion. You'll find below two vehicle sector stocks currently trading at a phenomenal discount.

Two connected industries, two discounted stocks … but which of these highly undervalued picks should value investors consider buying for long-term capital gains?

Martinrea International Inc. (TSX:MRE) is trading at a 47% discount. With a P/E of 6.7 times earnings, Martinrea International is good value for money. Looking at its PEG of 0.5 times growth, we can see further evidence of its undervaluation. It's multiple of 1.1 times book gives it a market-beating P/B ratio in case value investors needed more convincing.

The Globe and Mail recently identified Martinrea International as a stock that may be affected by auto tariffs should they materialize, however. Indeed, by looking at its share price activity, it may be assumed that even the suggestion of such tariffs may already be impacting valuation. Potential investors need to weigh whether the company could thrive despite the application of a U.S auto tariff when eyeing this stock. Risk-averse buyers may want to consider counter-investing in more insulated stocks.

Still, Martinrea International has been positioning itself for a downturn, with a positive reduction in debt last year and an uptick in its cash flow powered by high-profit deals. If you've been sitting on the sidelines, look carefully and consider whether Martinrea International's falling share price is indeed a value opportunity.

Air Canada (TSX:AC)(TSX:AC.B) is going for around almost a fifth of what it's worth. Currently selling for $20.90, it's a long way off its expected future cash flow value of $104. Boasting a P/E of 3.1 times earnings, Air Canada is the poster boy of value transportation stocks on the TSX right now. A superlow PEG of 0.3 gives further indication of its great value, while its P/B of 1.8 times book puts it in line with the TSX.

Though Air Canada is in the aviation business and logically would avoid the direct effects of a U.S. auto tariff, it may suffer indirectly as the whole economy faces a downturn. While this is potentially true of all stocks currently trading on the TSX and does not have any particular relevance here, it does give this stock even more of an edge over Martinrea International.

Oil prices may affect a potential upturn in aviation stocks, however. Value investors need to weigh the prospect of a $150-per-barrel world, and what affect it may have on aviation stock prices when calculating potential upside.

The bottom line

These are two very undervalued stocks with solid track records — a Canadian value investor has a lot to mull over in this duo of top picks. Air Canada's undervaluation of almost 80% combined with its superior track record puts it ahead of Martinrea International. Investors concerned about the prospect of auto tariffs may further consider Air Canada the better pick of these two discounted options.

However, high-growth investors who decide to add exposure to transportation stocks might want to counter-invest in more stable sectors at a time when risk is running high. Excellent low-risk, high-growth areas include green energy and gold.

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2. TSX:MRE (Martinrea International Inc.)

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