Here Is Why You Should Buy the Dip at Stelco Holdings Inc. (TSX:STLC) and Russel Metals Inc. (TSX:RUS)

Description

The Canadian federal government has responded sharply to tariffs on steel and aluminum imposed by the United States by imposing retaliatory tariffs that came into effect in July. It is unclear whether this will be enough to secure jobs across Canada, and the very real threat of auto tariffs looms over the country. Many economists have predicted that this measure could spark a recession in Canada and severely damage Ontario's industry.

In late June, the federal government announced that it would move to bolster Canada's steel and aluminum industry in order to combat the negative impact of the aforementioned tariffs. Minister of Foreign Affairs Chrystia Freeland announced that the government would pledge up to $250 million to "better integrate the Canadian supply chain of steel and aluminum," and an additional $50 million to help companies better diversify products to be exported.

So far, the tariffs have not caused a reversal in steel orders. Steel contributes over $4 billion to Canada's GDP, and nationally over 23,000 Canadians work in the industry. The immediate impacts may not have been evident when looking at regular orders in the industry, but steel and metals stocks have felt the pinch.

Instead of running from steel stocks in the second half of 2018, investors may want to think about buying the dip. Let me explain why.

Stelco Holdings Inc. (TSX:STLC), a Hamilton-based steel company, has seen its stock drop 11.3% over the past month as of close on July 10. The Hamilton Chamber of Commerce estimates that 10,000 local jobs are directly connected to steel production.

Shares are still up 2.1% in 2018, as the company has posted solid earnings in the past two quarters. Revenue rose 23% in 2017 to $1.60 billion for the full year, and adjusted EBITDA soared 145% to $216 million. Stelco CEO Alan Kestenbaum recently pointed out that 80% of Stelco's sales are in Canada, and thus the company would sustain minimal damage from the tariffs. Unfortunately, the tariffs could hinder growth in the long term. Stelco has also targeted the automotive sector for its growth potential, which could also be complicated if the Trump administration moves forward on auto tariffs.

Russel Metals Inc. (TSX:RUS) is a Mississauga-based metals distribution company. Its stock has dropped 6.5% in 2018 so far. Back in early June, I'd targeted Russel Metals as a buy-low candidate.

Russel Metals leadership had shown confidence in the face of steel tariffs due to its sizable footprint in the U.S., and its first-quarter results were impressive. Revenues climbed to $931 million from $804 million in the prior year, and profit rose to $38 million compared to $30 million in Q1 2017. Russel Metals also approved a quarterly dividend of $0.38 per share, representing an attractive 5.5% dividend yield.

Should investors look to these stocks today?

U.S. president Donald Trump has said that a NAFTA deal will be reached, if it is reached at all, after the November midterms. Steel and aluminum tariffs were originally imposed after all three sides failed to reach a deal this spring. Ottawa is pushing to restart talks with the Mexican election now in the rear-view mirror. It is worth stacking both Stelco and Russel Metals at low prices, as we will likely see talks intensify in the second half of 2018. The countries were getting closer before a breakdown in late May, and success will likely see an end to tariffs that would be damaging to all sides in the long term.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:RUS (Russel Metals)
2. TSX:STLC (Stelco Holdings Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/09/12
Date Created
2018/07/11
Author
aocallaghan