Trade War Has These 2 Companies Trading at Big Discounts

Description

President Trump's trade war is escalating. This week, Trump announced fresh tariffs on $200 billion worth of Chinese imports. As expected, China was quick to retaliate. Markets tanked on the news and will continued to be pressured over the short term.

Expect the markets to overreact with each tit-for-tat tariff announcement and each trade-related Trump tweet. It has certainly impacted volatility and along with it, market risk. However, with greater risk comes greater opportunity.

The auto sector has been hit hard by the aluminum and steel tariffs. The rhetoric around North American Free Trade Agreement (NAFTA) has also not helped matters. As a result, the two auto parts companies below are trading at big discounts.

A small cap with big diversification plans

Exco Technologies Ltd. (TSX:XTC) has been hampered by its significant exposure to the North American markets. Year to date, the company has lost approximately 6% of its value and is trading at the lower end of its 52 week range. The biggest sticking point for this company has been the uncertainty around NAFTA.

The company's CEO has gone on record saying that they have cancelled any further investment in Mexico until the NAFTA issue is resolved. The company had big plans for Mexico, but these plans have now been shelved.

Exco's stock is a bargain. The company is trading at a price-to-earnings (P/E) ratio of 10.32 and a forward P/E of 8.31. Likewise, it is absurdly cheap based on its 5.42 enterprise value to earnings before interest, taxes, depreciation and amortization (EV/EBIDTA), which is significantly below industry averages.

Need further proof? The company's Graham number is $12.40 per share. The Graham number was created by the father of value investing, Benjamin Graham. The number measures the fundamental value of the company based on current earnings and book value. Exco's Graham number is 35%

higher than its current price of $9.22 per share.

A worldwide leader

Not surprisingly, **Magna International Inc.** (TSX:MG)(NYSE:MGA) has shrugged off the recent trade uncertainty. The main reason? The company is much more diversified with significant worldwide operations. This is not to say the company is not impacted. After all, Magna is the largest North American auto parts manufacturer and its supply chain relies heavily on duty-free trade.

Company management has been very vocal about the negative impacts of a trade war. Management expressed its concerns in a submission to U.S. Commerce Secretary Wilbur Ross, claiming that tariffs would cause irreversible harm to the industry.

Amidst the challenging environment, the company has done nothing but execute as it continues to post record revenues. If not for the trade uncertainty, Magna would surely have posted double-digit gains this year.

Magna is trading at a forward P/E of 10.13 and its P/E to growth (PEG) ratio is 0.70. A PEG below one indicates that the company`s share price is not keeping up with expected earnings. It is thus considered undervalued.

Short-term pain for long-term gain

At this point, an investment in the auto sector is not without risk, as there’s significant volatility in the markets. Until the trade war subsides and a new NAFTA agreement is in place, both of these companies could experience short-term pressure. If your holding period is long-term, both offer great entry points for investors.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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2. TSX:MG (Magna International Inc.)
3. TSX:XTC (Exco Technologies Limited)

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Author
mlitalien