Value Opportunity! 2 Auto Stocks That Could Rally on Good News

Description

A positive deal on auto tariffs could inject some much-needed optimism into the industry, causing Canadian auto stocks to rally. The signs are good: a positive breakthrough between the E.U. and the U.S. last week led to buoyed stock markets. Value investors still have an opportunity to buy Canadian auto stocks low while there is fear in the market, though.

It's a short window of opportunity, which will close as soon as there are positive indicators from the U.S., such as the scrapping of proposed auto tariffs or a lenient renegotiation of NAFTA. If you miss this window, a further one may exist should tariffs actually be introduced, at which point a deeper value opportunity is likely to have been created. The upside then would be added by industry-stimulating government initiatives and possibly a booming post-Brexit U.K.

Here are two stocks that could see some upside added in coming weeks. Investors should be aware that the current value opportunity will last only as long as market jitters persist on the back of potentially industry-crippling auto tariffs, with upside coming from dropped U.S. tariffs and/or positive NAFTA news, so contrarians with an appetite for risk should act fast.

Uni-Select Inc. (TSX:UNS)

This auto paint and finishes distributor operates in Canada, the U.S., and the U.K. Discounted by 33% compared to its future cash flow value, this stock is great value at the moment. A real bargain, its multiples are nice and low. With a P/E of 16 times earnings, PEG of 0.9 times growth, and P/B ratio of 1.3 times book, Uni-Select is worth putting into your trunk.

In term of what's up the road for Uni-Select, a 17.2% expected annual growth in earnings shows that this is a stock to hold onto for the long term. Its dividend yield of 1.71% is mediocre, and the Uni-Select holds a high level of debt, but this stock would really take off given an upturn in the Canadian auto industry.

Magna International Inc. (TSX:MG)(NYSE:MGA)

Discounted by 26% compared to its future cash flow value, Magna International is a quality stock. Let's take a look under the hood and see how it's looking today. Income-wise, this stock's P/E of 9.6 times earnings indicates excellent value. A PEG coming out to 1.5 times growth reflects a small but positive 6.4% expected annual growth in earnings.

While Magna International has a slightly warm P/B ratio of 1.8 times book, it's a well-priced stock overall. A dividend yield of 2.16 % isn't bad for an auto stock, and Magna International has an acceptable level of debt as well. An expected 20.3% return on equity over the next three years further attests to the quality of this stock.

The bottom line

The levels of growth for these stocks seem conservative. Should auto tariff increases be scrapped, the optimism in the markets would cause these and similar stocks to surge. This presents value opportunities for the time being, though investors should take advantage of them soon.

Holding Uni-Select gives exposure to the U.K., which could see its economy boom post-Brexit. Meanwhile, Magna International gives exposure to the Chinese electric vehicle market. Holding both stocks would be a great way to add diversity to the industry section of your portfolio.

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