This 1 Development Could Make These 3 Auto Stocks an Attractive Buy-Low Opportunity

Description

In previous articles I have discussed the danger of the auto tariffs floated by the Trump administration. Auto tariffs on imports into the U.S. of up to 25% could do huge damage to the Canadian auto sector. Some analysts and economists have suggested that the move could deal a blow to the broader economy comparable to the 2014-2015 oil shock or even the Great Recession.

In the near term, auto stocks would likely be battered, which would sweep across dealerships and automotive parts manufacturers that are deeply intertwined in supply chains south of the border. A senior Trump administration official told CNBC news late last week that auto tariffs on Canada were still on the table. Commerce Secretary Wilbur Ross has forecast that the final report will likely be released sometime in August.

The news comes as NAFTA talks appear to be warming once again. Canada was left out of talks between the U.S. and Mexico last week, but officials from both nations expressed optimism that a deal could be negotiated this month. Negotiations among all three countries will recommence in mid-August. It is possible that auto tariffs could be dangled over Mexico and Canada the same way that steel and aluminum tariffs were delayed before being imposed in June.

Investors have been teased by the prospect of a near deal throughout 2018. In this instance, the political incentive is as attractive as ever, in particular for the United States. The Trump administration and the GOP are facing the first key electoral test in the November midterms. The economy has been performing well since the 2016 election, and a deal struck in the late summer or early fall could bolster the stock market before voters head to the polls.

With this in mind, investors may want to consider betting on stocks that could gather momentum if a deal is struck.

AutoCanada Inc. (TSX:ACQ)

AutoCanada stock has plunged 36% in 2018 as of late morning trading on August 7. The company operates franchise dealerships across Canada. In Canada, a 25% auto tariffs could result in a cost increase to the average automobile of about $5,000. This is without factoring in retaliatory tariffs that the Canadian government would likely pursue. AutoCanada is already wrestling with slower sales in 2018 compared to the prior year. Investors would welcome the news that auto tariffs are no longer a prospect if a deal were to be achieved in August.

Magna International Inc. (TSX:MG)(NYSE:MGA) and **Linamar Corporation** (TSX:LNR) have dropped 1.1% and 20%, respectively, over the past three months. Magna stock has remained robust after it has continued to post record earnings. Linamar stock, on the other hand, has suffered from failing negotiations. U.S. auto content demands stand to negatively impact Linamar more so than Magna, as the company boasts a smaller footprint south of the border. Recent reports indicate that the U.S. has been more “flexible” on auto content in recent talks, which could be great news for Linamar.

Both Magna and Linamar are attractive targets with positive news on the NAFTA front. The latter is particularly enticing after the stock has been battered over the last three months.

CATEGORY

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3. TSX:LNR (Linamar Corporation)
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aocallaghan