2 Metals Dividend Stocks to Consider This Fall

Description

On June 1, 2018, the Trump administration followed through on its threat to impose steel and aluminum tariffs on Canadian imports. Canadian steel and aluminum industry leaders were quick to calm anxieties with the assurance that companies could continue to thrive, at least in the short term. Steel and aluminum makers in Canada and Mexico have reportedly called on the United States to call off tariffs as part of a new NAFTA agreement.

There is also the threat of auto tariffs that hangs over Canadian industries, including steel and aluminum producers. We sit less than two weeks from the U.S.-imposed October 1st deadline, and there are still troubling sticking points that may prevent a deal on the Canadian side.

Does this mean investors should ignore metals stocks altogether? Not necessarily. Let's look at two stocks in this key industry and see how both have fared after tariffs hit.

Stelco Holdings (TSX:STLC)

Stelco stock had dropped 4% over the past month as of close on September 19. Shares were in negative territory in 2018 so far, but the stock has still performed very well following its initial public offering in November 2017. The company released its second-quarter results on July 31.

Revenues surged 67% year over year to $711 million with steel-shipping volumes up 49% from Q2 2017. Stelco also declared a special cash dividend of $1.69 per share in addition to its regular quarterly dividend of $0.10 per share. The regular dividend represents a modest 1.3% dividend yield.

Higher steel prices have given Stelco a boost in recent months, with the price of steel rising to $1,000 per metric tonne from $700 in January. This has allowed Stelco and other producers to pay the tariff and still make a solid profit. The real danger for Stelco may be auto tariffs, which could cut into its growth strategy, which is reliant on expansion into the automotive sector.

Russel Metals (TSX:RUS)

Russel Metals stock had dropped 7% in 2018 as of close on September 19. Back in June, I'd recommended

Russel Metals stock as higher steel prices were set to benefit the company in the months to follow. On August 9, the company released its best quarterly results in a decade, as net income doubled to $66 million and revenues rose to $978 million from $817 million in the prior year.

According to the report, significant increases in selling prices across its operations resulted in improved margins and inventory holding gains in Q2. Metals service centre revenues increased 35% to $562 million and same-store tonnes shipped were 9% higher than the previous year. The average selling price climbed 17% from Q2 2017 on the back of pressure from tariffs. However, revenues in its steel distributors segment dropped 9% in large part due to trade concerns.

The board of directors also approved a quarterly dividend of $0.38 per share, representing an attractive 5.6% dividend yield. The stock continues to be a solid target, especially as steel prices climb higher in the fall.

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