3 Stocks to Buy Now That the New USMCA Is Coming

Description

After a fierce 13 months of on and off negotiations, the three nations comprising NAFTA have appeared to reach consensus on a new agreement to update the prior one that will be referred to as USMCA. Here are three unique investments that stand to gain from the updated trade agreement.

The automotive sector is set for gains

When it comes to the automotive sector, there is no company as intertwined in the integrated supply chain model created under NAFTA as **Magna International** (TSX:MG)(NYSE:MGA). One of the biggest sticks that the U.S. dangled in front of Canadian negotiators was the possibility of U.S.-imposed auto tariffs; those tariffs would have resulted in massive losses on both sides of the border. New limits under the USMCA offer some protection for automotive manufacturers and parts suppliers such as Magna.

Looking beyond the North American market, Magna is also an alluring investment owing to its continued investment into the Chinese market. Magna's electric vehicles (EVs) program announcement made in China earlier this year will see Magna work with local partners to produce EVs for that market. In terms of opportunity, during 2017 China had an estimated 700,000 EVs on its roads, and that number is slated to each nearly five million over the next two years.

Magna currently trades below $69 with a P/E of 10.49. Both the USMCA and expansion plans to the market in China make Magna a great addition for nearly any well-diversified portfolio.

The other side of the dairy argument

One of the most pressing issues during the late stages of negotiation was over Canada's dairy supply-management system, which placed tariffs and limits on foreign dairy products entering the Canadian market. This was fiercely stated on several occasions and even became a major election issue in the Quebec election.

But what of the inverse? Wouldn't there be benefits to increased competition both in Canada's grocery stores as well as a market to export Canadian dairy?

The answer to that is a resounding yes, and CEO of **Saputo** (TSX:SAP), Lino Saputo, has welcomed the notion of increased competition in the past. To be fair, Saputo already has a sprawling network of operations outside Canada, but recent changes brought forth under the USMCA could expose an opportunity for further growth.

One point of interest is the controversial pricing category known as "Class 7." The category was created not as part of NAFTA, but rather was something that came into effect in 2017, but in doing so it effectively shut out some Wisconsin and New York-based processors from the Canadian market. Now that Class 7 appears to be on the path to elimination, Saputo is open to purchase ingredients from around the world, including those U.S.-based processors that will be on a more equal footing.

Investors contemplating Saputo should note that the company also offers a quarterly dividend with a respectable yield of 1.71%, and the current stock price is down 10% over the past 12-month period at just under $40.

How are all those products getting to the U.S. market?

One often-neglected factor with cross-border trade is the logistics of transporting raw materials and finished products. Most investors might be shocked to realize that railroads still comprise the largest share of freight, carrying both the largest volume of goods at the most reasonable cost, and **Canadian National Railway** (TSX:CNR)(NYSE:CNI) is both the largest and most accessible railroad to the U.S. market from Canada, hauling over $250 million in goods each year.

Apart from being the only railroad on the continent with access to three coastlines, Canadian National is in the midst of a massive infrastructure upgrade, stemming from the disastrous performance that was witnessed last winter. Results from the most recent quarter showed that Canadian National not only recovered from the disappointing quarter in the prior period, but also saw the company return to a level of strong growth.

Now that the USMCA is agreed to, there's no reason to doubt that Canadian National's impressive growth will continue, and investors can also benefit from the quarterly 1.62% yield the company offers.

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Date
2025/08/24
Date Created
2018/10/03
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