Better Buy After USMCA: Linamar Corporation (TSX:LNR) or Magna International Inc. (TSX:MG) Stock?

Description

After Canada and the United States announced a breakthrough in trade talks, auto stocks surged in response on October 1. The agreement included an "accommodation" that would protect Canada and Mexico from auto tariffs that the Trump administration may choose to impose going forward. President Trump praised the steel and aluminum tariffs and the threat of auto tariffs as effective instruments during negotiations.

Back in the summer, I'd discussed how auto tariffs could be a major force of destabilization for the Canadian auto sector. That they are now off the table comes as a relief for investors. Auto parts makers will also be celebrating as tariffs could have severely disrupted continental supply chains and put a dent in forecasts. The new agreement also allows Canada to send 2.6 million passenger cars to the U.S. annually compared to the current rate allowed of 1.7 million.

Today, we are going to look at two Canada-based auto parts makers. Which one is the better buy after this landmark trade deal? Let's dive in.

Linamar (TSX:LNR)

Linamar stock surged over 10% in morning trading on October 1. Shares have since retreated and the stock is only up 0.61% week over week. Linamar leadership had reason for anxiety during negotiations as U.S. auto content demands had the potential to put a squeeze on its business. Currently, Linamar only has about a third of its operations in the United States.

In the third quarter, Linamar saw sales increased 22.1% year over year to $2.2 billion, which represented a new record. Net earnings surged 21.7% to $197.1 million and diluted earnings per share rose 21.6% to $2.98. The board of directors also declared a dividend of $0.12 per share, representing a modest 0.8% dividend yield.

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

Magna stock also spiked over 10% in early morning trading on October 1 before retreating to levels seen in the previous week. Shares have dropped 2.9% in 2018 so far. Magna was in a better position in the event of a major shift in auto content requirements due to its significant U.S. presence.

The company released its second-quarter results on August 8. Magna also racked up record second-quarter diluted earnings per share of $1.77, which represented a 23% year-over-year increase. Sales rose 12% to a record $10.3 billion. The board of directors also declared a quarterly dividend of $0.33 per share, representing a solid 2.3% dividend yield.

Which should you buy today?

The stability offered by the deal combined with a higher cap for Canadian passenger car exports is great news for auto parts makers. Both Linamar and Magna have good potential to recoup losses in the coming months that were sustained due to trade anxiety, but the latter is still my top pick in October. Magna is set to release its third-quarter results in early November. The stock is worth monitoring ahead of the report.

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aocallaghan