Here Is Why a Clause in USMCA Could Limit the Growth Potential of These 2 Stocks

Description

Back in March, I'd discussed how Chinese tariffs on U.S. pork and wine products could potentially open lanes for Canadian companies to enter in the near term. Since those opening shots, the U.S.-China trade war has dramatically escalated. **JPMorgan** released a note that predicted the U.S.-China trade war would enter "Phase III" in 2019, which has the potential to entail tariffs on all imports from China. This would bring the total to over $500 billion.

The economic showdown between the U.S. and China will impact the U.S.-Mexico-Canada Agreement (USMCA), which should be ratified sometime in the late fall. Inside the agreement is a provision that allows any member country to veto free trade agreements with non-member countries by dissolving the USMCA into a bilateral agreement. As I'd written earlier this week, the USMCA secures North America as a U.S.-led economic bloc, which will be in a better position to wage trade wars against China and other economic rivals, like the European Union.

In the past, Canada has explored the possibility of a free trade deal with China, but some experts believe that this provision is specifically designed to prevent this going forward. Today, I want to focus on two Canadian companies that could see growth potential curbed due to this development.

Maple Leaf Foods (TSX:MFI)

Maple Leaf is a Mississauga-based consumer packaged-meats company. China is the largest consumer of pork in the world, and in the first linked article above, I'd discussed how new tariffs could create possibilities for Canadian companies to exploit this enormous market. This will be complicated by the current geopolitical situation, but that does not mean that Maple Leaf is a bad hold right now.

The company released its second-quarter results back on July 26. Sales were up 1.1% year over year after adjusting for IFRS changes, foreign exchange, and acquisitions. Trade tensions resulted in “challenging market conditions” for Maple Leaf, according to its quarterly report. Maple Leaf still saw free cash flow rise 51.4% year over year to $22.9 million. The board of directors also approved a dividend of $0.13 per share, representing a 1.5% dividend yield.

Andrew Peller (TSX:ADW.A)

Andrew Peller stock has dropped 3.3% over the past week as of close on October 4. Shares are still up 2.9% in 2018 so far. Tariffs on American wine from China was worth noting considering the growth trajectory of the Chinese wine market. It is expected to surpass the United Kingdom in the coming years. Andrew Peller is still limited to its domestic markets, but the potential is certainly worth noting.

More crucial for Andrew Peller is the strengthening of the California wine market, but that will be a topic for a later article. Even with some headwinds, Andrew Peller remains a solid target. It has posted solid organic sales in the first quarter of fiscal 2019, while adjusted EBITDA was up 24.1% year over year. Shares are also up 35% from the prior year.

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