



Will Magna International Inc. (TSX:MG) Get Going with the New NAFTA and the China Card?

Description

Trade war fears resonated again across global markets on Tuesday. United States President Donald Trump doused cold water on investor optimism when he expressed doubts on the possibility of a Washington-Beijing truce on trade. The TSX fell by triple digits with stocks in the healthcare and industrial sectors leading decliners.

With all the dizzying influences happening around, Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) is dealing with its own trade issues. The largest automobile parts manufacturer in North America is working to firm up deals with the world's two largest economies that are presently locked in a trade dispute.

Magna International is also one of the biggest names in Corporate Canada and as of December 4, the market cap stands at \$21.05 billion.

What's in a name?

Ever since mid-year when the price hit a peak of \$86.69, the stock trended downwards. The company sat on pins and needles when the North America Free Trade Agreement (NAFTA) was being negotiated. Canada even threatened to pull out and the U.S. was prepared to exclude its neighbor.

Nonetheless, a modernized NAFTA came to be at the eleventh hour on September 30. Apart from the retooling of the expired agreement, the name was changed to US-Mexico-Canada Agreement or USMCA. Trump insisted on a name that has a good ring to it.

The auto industry as top on the agenda

Canada's auto industry is poised to benefit in the latest NAFTA makeover. The renewed deal mandates that 75% of the contents of any automobiles imported into America to be made in North America to elude tariffs. That's quite an improvement from the 62.5% limit under the antiquated NAFTA.

Meanwhile, Canada's auto industry was boosted it was given the right to continue exporting cars and

trucks to the U.S. at the current levels and exempt from any other major regulatory obstacles.

Still, the current stock price of \$62.94 is 27.39% off its June's high. It's not even better than the \$71.50 when the year started.

The pivot to China

The reason why Magna rose in June was that of [a pair of joint venture agreements](#) that paves the way for the company's entry into electric vehicles. Partnering with Beijing Electric Vehicle Co. (BJEV), a Beijing Automotive Industry Holding Co., Ltd.'s subsidiary and largest electric-car manufacturer in China was a masterful stroke.

China's EV market outsold the U.S. by a ratio of 3.85 to 1 or 700,000 versus 200,000 EV units sold. Clearly, the Chinese are ahead. The Asian giant is aiming that by 2025, EVs or hybrids should comprise 20% of total vehicle sales. Magna is expected to play a significant role in reducing emissions in China.

Magna will hit pay dirt soon

A stock rebound at this juncture remains uncertain. However, [long-term investors can position early](#) before Magna International hits pay dirt. The seeds for growth have been planted. The USMCA will start rolling and the China card will come into play.

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