2 Metals Stocks Set to Bounce Back This Year

Description

Tense negotiations in the lead up to the United States-Mexico-Canada Agreement (USMCA) led to volatility for metals stocks. The United States slapped steel and aluminum tariffs on Canadian and Mexican imports on June 1, 2018. Both countries have lobbied for these tariffs to be removed after signing the USMCA, but they remain in effect.

The squeeze on the market was initially very positive for steel prices. However, domestic steel prices fell steadily in the latter half of 2018. This fits with historical trends, as prices tend to be weaker in Q3 and Q4, while mills increase prices when the budgeting season begins. No such rebound has formulated in 2019 so far.

Today, we are going to look at two stocks that struggled in late 2018. Should investors bet on a stronger 2019? Let's find out.

Russel Metals (TSX:RUS)

Russel Metals is a Mississauga-based metals distribution company that operates through metals service centres, energy products, and steel distributors. Shares of Russel Metals have increased 7.6% in 2019 as of close on January 22. The stock is down 26% year over year.

The company is set to release its fourth-quarter and full-year results for 2018 in mid-February. In the third quarter, Russel Metals saw revenues climb 35% year over year to $559 million on the back of higher average selling prices, which increased 28% over Q3 2017. Revenues in its steel distributors segment climbed 17% to $114 million largely due to higher steel prices. Fortunately, the steel distributors segment is the smallest of its three major segments.

The company approved a quarterly dividend of $0.38 per share, which represents an attractive 6.6% yield. Russel Metals boasts top-end performance relative to its industry as far as price-to-earnings and price-to-sales numbers are concerned. Broader volatility and uncertainty over the continuance of steel tariffs are risks for the stock in 2019.

Stelco (TSX:STLC)

Stelco is a Hamilton-based steel producer. Shares have climbed 6.4% in 2019 as of close on January 22. The stock has plunged 35% year over year.

Stelco stock hovered around 52-week lows for much of late December and early January. Shares built temporary momentum after a strong third-quarter report, but this proved unsustainable in the face of a global stock market sell off. In the third quarter, Stelco saw revenues rise 84% year over year to $283 million. Steel shipping volumes surged 43% to 586,000 net tonnes.

Stelco currently offers a quarterly dividend of $0.10 per share, which represents a 2.5% yield. The stock last had an RSI of 51 as of close on January 22, which puts shares in neutral territory in late January. Stelco's strong performance was largely torpedoed by outside factors in 2018, but the USMCA did eliminate the risk of auto content tariffs, which could have hurt its growth strategy going forward.

Are these stocks worth a buy right now?

Both companies are set to cap off an impressive fiscal 2018. Thankfully, the trade spat between Canada and the United States has been put to bed, although Congress must still push the USMCA through, which could be delayed due to the ongoing shutdown. I like Russel Metals and Stelco at current prices. Both also offer solid income going forward.

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