



U.S.-China Trade Talks Could Unlock Value for Kinaxis (TSX:KXS)

Description

High-level American and Chinese delegates will meet this week to forge a trade deal between the two nations. Last December, the two sides struck a truce in their ongoing trade war that relaxed international tariffs and restrictions till March 1. That deadline is fast approaching, and negotiations are finally entering their end game.

Striking a deal before the deadline could avert a 15% tariff increase on Chinese exports worth an estimated \$200 billion. The U.S. expects China to implement a new framework for trade relations and clamp down on the theft of intellectual property from U.S. companies. Meanwhile, China expects to continue its trade with its biggest customer without any hurdles.

These trade talks may have an indirect impact on Canada's largest supply chain software as a service (SaaS) provider **Kinaxis** ([TSX:KXS](#)). Some of Kinaxis's largest customers have been affected by the ongoing trade tensions between the world's two largest economies.

Tariffs on metals have already wiped off \$1 billion in **Ford's** profits and reduced unit sales in China. Recently, Ford CEO Jim Hackett said the trade war must be resolved quickly, or "there will be more damage."

Meanwhile, **Toyota** said a 25% tariff on automotive imports would add nearly \$3,000 to the price of its most popular models including pickup trucks and minivans. The company admitted that the trade war was also having an impact on cars manufactured in the United States. Both Toyota and Ford are Kinaxis customers.

Although the company's contracts are long term, usually between two and five years, the trade dispute has been ongoing since 2017 and may drag on for much longer. This disruption in the global supply chain will be ultimately reflected on Kinaxis's bottom line.

The global supply chain has had decades to develop uninterrupted. A trade war on this scale between the world's largest consumer of goods and the world's largest producer of goods is unprecedented. As the dispute drags on, global growth could slow down, businesses could cancel or postpone investment initiatives, and consumer spending could plunge.

However, there is hope that the two sides will come to a reasonable agreement before the March 1st deadline or even extend the deadline to relieve global supply chains. In my opinion, any positive development over the next few weeks could unlock tremendous value for Kinaxis investors.

I also believe that the trade war's impacts are mitigated by the diversification of Kinaxis's client base. According to its last annual report, the 10 largest customers account for less than 44% of revenue and the biggest customer accounts for just about 10%.

Operations are spread beyond China and the U.S., and it could be argued that multinational corporations will need Kinaxis's efficiency solutions even more if their supply chain gets more complicated. These factors could offset the risks I have just outlined.

Bottom line

The ongoing trade war between the U.S. and China will have severe repercussions for the global supply chain, which could ultimately impact Kinaxis's prospects. Investors need to follow this week's trade negotiations closely.

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