3 Stocks With Major Political Risks

Description

Political risks can be difficult to forecast. In democracies, governments get shuffled every few years, which means that political pressures and priorities can change overnight.

default watermark

Despite their difficulty to forecast, it's important to understand how political risks can impact your investments. Even if you're not invested in the stocks below, the political forces pressuring them likely apply to other parts of your portfolio.

SNC-Lavalin Group Inc (TSX:SNC)

SNC-Lavalin, a firm that specializes in infrastructure-related projects, got a big boost last week as one of its joint ventures secured a $1 billion deal to decommission three nuclear reactors in New York. SNC-Lavalin owns 40% of the joint venture, so this would essentially generate $400 million in revenue.

This deal helps pad the company's existing $1.2 billion backlog for nuclear engineering work. The rest of the business also seems to be relatively healthy. Why then is the stock price down 40% over the past 12 months?

Last year, the company swung to a loss as it booked a $346 million charge in its mining segment. Things quickly got worse as political troubles rolled in.

According to the *Sun*, Justin Trudeau "led a government-wide campaign—involving his highest-ranking officials and advisors—to politically interfere in SNC-Lavalin's criminal prosecution on corruption charges."

How much these accusations impact SNC-Lavalin's business is still tough to determine. Monitoring the blowback will be critical for every shareholder.

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS)

Canada Goose was a market darling last year, rising as much as 100%. Shares have given up some of the gains, but the stock has still tripled since its IPO in 2017.

Shares look expensive at more than 50 times earnings, but the company should be able to grow earnings at double-digit rates for many more years. Its biggest growth driver should come from penetrating international markets.

For example, 52 out of every 1,000 Canadians already own a Canada Goose jacket. That's incredible, especially considering Canada Goose is trying to replicate this penetration abroad.

In many places across Asia, including China, fewer than 10 people in a thousand own a Canada Goose jacket. This room to grow is a big reason why Canada Goose shares are so pricey. Trade wars could put a lot of pressure on sales growth, especially given the growing tensions between Canada and many of China's allies.

For its part, Canada Goose management doesn't seem too concerned.

"There's a lot of noise out there in the headlines, but as you see in our results, we continue to grow our business significantly, and you see that in China and all of our geographies," commented the company's CEO. "We're just getting started in China."

default watermark

Still, this is an important risk to monitor for Canada Goose, as well as any company that relies on foreign growth.

Hydro One Ltd (TSX:H)

Hydro One used to be a straightforward bet. The company supplies its markets with power, 99% of which was fully-regulated. This stability allowed the company to pay a dividend of more than 4%.

Hydro One looked to grow abroad by purchasing **Avista**, a west coast utility with interests in the U.S. The deal was ultimately scrapped, forcing Hydro One to pay a $103 million breakup fee.

The cause for the breakup was pure politics. Washington state regulators denied the bid given the Ontario government's large financial stake in the company. The possibility that Ontario's government would meddle in Avista's operations was too great.

Unless the government rids itself of its Hydro One stake, these political considerations should continue with no end. Hopefully, Hydro One returns to its simple, but profitable business model of the past.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)

2. TSX:ATRL (SNC-Lavalin Group)
3. TSX:GOOS (Canada Goose)
4. TSX:H (Hydro One Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/25
Date Created
2019/04/27
Author
rvanzo

default watermark

default watermark