Now That Tariffs Are Lifted, Are These Steel Stocks Worth Buying?

Description

A short but tumultuous trade spat appeared to conclude in May as Canada lifted its retaliatory tariffs on the United States. The U.S. followed suit, lifting its penalties on steel and aluminum from Canada and Mexico. Both countries said that they would not accept a deal that called for fixed quotas, though the U.S. reserves the right to request consultations before imposing duties at the same rate as previous tariffs. That means the threat of future tariffs remains, but investors can breathe a sigh of relief in the short term.

It should therefore come as no surprise that metals stocks were active after the deal was struck.

Russel Metals (TSX:RUS) is a Mississauga-based metals distribution company. Shares have dropped 6% month-over-month as of close on May 27. The stock has climbed 4.6% in 2019 so far.

Back in January, I discussed why Russel Metals was worth targeting, as it was discounted after a late 2018 plunge. Tariffs boosted steel prices immediately after coming into play, which showed in Russel's earnings in the first half of last year. However, steel prices have been on a downtrend since peaking in the summer of 2018. Revenues rose to $1.03 billion over $931 million in the first quarter of 2019, but EBIT dropped to $58 million compared to $61 million in Q1 2018.

Revenues in Russel's steel distributors segment rose 30% year over year to $122 million, reflecting higher year-over-year North American steel prices into March 31, 2019. CEO and President John G. Reid praised the solid start, but warned that 2019 would be "more challenging" compared to 2018.

Headwinds aside, Russel Metals still offers an attractive dividend. The company approved a quarterly dividend of $0.38 per share in its first quarter report, representing a tasty 6.8% yield. A forward P/E of 9 puts Russel in nice value territory relative to its industry peers. This is a solid pick for value and income investors right now.

Stelco Holdings (TSX:STLC)

Stelco is a Hamilton-based steel company. Shares have surged 11.5% over the past month. The stock challenged a 52-week low after the release of its first-quarter 2019 results. Stelco executives said that they are looking for merger and acquisition opportunities in the report and reiterated this after the U.S.-Canada deal was struck. In the first quarter, Stelco reported a 20% quarter-over-quarter drop in revenue and a 63% decline in operating income.

Stelco comes out of the short trade battle in a strong cash position. At the end of the first quarter, Stelco had no financial debt and boasted $285 million in cash as well as $577 million in total liquidity, providing it with attractive flexibility as we look ahead to the summer.

The company last paid out a quarterly dividend of $0.10 per share, representing a 2.3% yield. Stelco boasts a forward P/E of 5 which also makes it a fine value play.

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