TFSA Investors: Avoid This TSX Steel Stock in 2020

Description

Tough times don't last; tough people do. It's a cliché, but it is a true cliché. Certain sectors are seeing a slowdown across the world. Factor in the threats of Coronavirus, and it looks like we are in for a scary situation for the next couple of months, at least. During times like these, it is best to avoid stocks and sectors that are not doing so well right now, such as the steel industry.

Stelco Holdings (TSX:STLC) reported its fourth-quarter and annual results recently, and the outlook doesn't look great. Stelco is a low-cost, integrated, and independent steelmaker with one of the newest and most technologically advanced integrated steelmaking facilities in North America.

The company's numbers for Q4 and 2019 were less than encouraging. Revenue for the fourth quarter came in at $435 million compared to $464 million in the third quarter. In 2019, sales were $1.8 billion compared to $2.5 billion for 2018. In 2019, Stelco reported a net income of $20 million compared to $253 million for 2018.

This is because the headwinds from the third quarter continued to impact sales in Q4. Average prices fell to $659 per net tonne — a decrease of $29 per net tonne from Q3 2019 and down $321 per net tonne from the pricing peak in Q3 2018.

Low demand in 2020

The World Steel Association (Worldsteel) says global demand for steel is low across the world. They expect the market in 2019 to grow by 3.9% to 1.78 million tonnes in 2019 and 1.7% to 1.81 million tonnes in 2020.

The numbers are worse for North America (where Stelco operates), with steel demand expected to grow by 0.6% to 141.5 million tonnes in 2019 and by another 0.8% to 142.6 million tonnes in 2020.

The U.S. constructions sector is expected to weaken in 2019 and will see “no recovery” in 2020. The situation is the same in Europe as well. The U.S. automotive sector is forecast to see no growth in2019 and only a slight rebound in 2020, said Worldsteel.

Can Stelco stage a turnaround?

All of this doesn’t mean Stelco has given up trying. The company expects a slew of measures it has implemented over the last year to start paying off in the fourth quarter of 2020. The company has reduced costs and targetted $50 million in cost savings by the end of the second quarter of 2020. Stelco says it’s ahead of schedule, and the company should comfortably hit those numbers.

These numbers haven’t stopped Stelco from declaring a regular quarterly dividend of $0.10 per share — the ninth consecutive quarter of payouts and indicating a yield of 4%.

While analysts have given the stock an average target price of $12.81, up over 36% from its current $9.05, I would advise you to stay away from Stelco for the time being. The markets are not bullish right now, and neither should you be bullish on Stelco in the short term.

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