How to Profit From a Weakening Canadian Dollar

Description

The Bank of Canada is concerned with the disinflationary pressures in the economy that it sees lingering for the foreseeable future. Inflation is lower than expected and therefore the bank is keeping its downward bias on interest rates.

With the Canadian dollar continuing to weaken, investors need to start asking the question about which sectors and companies will benefit?

$US/$CDN Exchange Rate

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Source: Bank of Canada. Note: The chart is a monthly chart and the last data point is January 1, 2014. The exchange rate currently sits at $1 Cdn = $0.90 US.

There are a number of industries that will benefit from this dynamic. Let's start by looking at some of the companies in the industrial sector that stand to benefit.

Manufacturing companies to benefit

Companies that have a big portion of US dollar-denominated revenues combined with Canadian dollar-denominated expenses will see benefits from the weakening Canadian dollar.

Many industrial companies have a large part of their revenues that come from outside Canada. These companies will benefit from the conversion of their revenues to Canadian dollars, and from increased demand as their products and services will be cheaper for customers outside of Canada.

As an example, **ATS Automation** (TSX:ATA), which provides manufacturing solutions to multinational companies in a variety of industries and has a market cap of $1.3 billion, reports in Canadian dollars but generates the bulk of its revenue in other currencies — 34% from Europe, and in the high 30% range from North America (excluding Canada).

CAE (TSX:CAE) also generates a big portion of its revenues from outside of Canada. In fiscal 2013, CAE reported $2.1 billion in revenues, with 30% of that revenue generated from the U.S. and 31% generated from Europe.

With almost 40% of its revenues derived from the U.S., **Stantec** (TSX:STN) also stands to benefit from the weakening dollar. Stantec is already on the path to a really good year. Back in October, the company released very strong third quarter results, showing a 21.3% increase in revenue and a 34.6% increase in net income. So the positive impact of the weakening Canadian dollar on Stantec's results will be icing on the cake.

Another company that reports in Canadian dollars and derives a big portion of its revenues from the U.S. is **Martinrae International** (TSX:MRE), an autoparts supplier. The company generates almost

35% of its revenue from the U.S. It is the one positive that this company will see after a string of bad news. Problems at its Kentucky factory, increased costs, overstating results and missing guidance have taken their toll on the company's share price. However, Martinrae will finally see an unexpected positive event impact its financial results.

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