Should You Buy Canadian Stocks That Pay U.S. Dollar Dividends?

Description

The weakening of the Canadian dollar against its American counterpart has given Canadian investors a bonus on the dividends of companies that pay distributions in U.S. dollars.

However, many investors lose part of the benefit if a cross-listed stock is held on the Canadian side of a trading account. The loss occurs because the broker charges an exchange fee to automatically convert the dividend to Canadian currency.

One way to avoid this forced conversion is to have the shares placed on the side of the account that holds stocks traded on U.S. exchanges. The dividend would then be paid in U.S. dollars and the investor could leave the money in U.S. funds or choose to transfer it at a later time when the exchange rate might be more beneficial.

Most Canadian investors don't bother with the hassle, but it can be worth the effort when the exchange rate is volatile. For example, the U.S. dollar currently buys $1.09. Less than three weeks ago it was $1.06.

Within the last 12 months, the exchange rate has ranged from a low of $1.02 to a high of $1.13.

Depending on the size of an investor's portfolio, the potential difference in the amount of money received can be significant.

This situation doesn't affect just Canadians. American investors who own cross-listed Canadian companies that pay in Canadian dollars face the same issue.

Many analysts are expecting the Canadian dollar to continue its fall. If that theory pans out, Canadian investors receiving dividends in U.S. dollars will get the chance to squeeze some added returns out of their investments.

There are several cross-listed companies in the **S&P/TSX 60** that pay their dividends in American dollars.

Here are three with yields above 3%.

1. Potash Corp. of Saskatchewan Inc.

Canada's top potash producer has cut staff and reduced output to stay profitable amid difficult times in the global potash market. With world wholesale prices now stabilizing and profit expectations moving higher, investors in **Potash Corp. of Saskatchewan Inc.** (TSX: POT)(NYSE: POT) are hoping the dividend will be increased next year.

The company currently pays U.S.$1.40 per share, yielding just under 4%.

2. Thomson Reuters Corporation

Based in New York, **Thomson Reuters Corporation** (TSX: TRI)(NYSE: TRI) is majority-owned by Canada's Thomson family. The company has more than 50,000 employees and operates in nearly 100 countries. It has spent most of the past five years on the acquisition trail, buying more than 25 companies to drive innovation into its core business divisions.

The company just reported stable Q2 earnings, announced a $1 billion share buyback program, and increased its dividend.

Thomson Reuters currently pays U.S.$1.32 per share, yielding about 3.5%.

3. Agrium Inc.

As an integrated crop nutrients company, **Agrium Inc.** (TSX: AGU)(NYSE: AGU) uses its retail operations to diversify earnings when volatility hits the wholesale markets. This has been helpful over the past year. Now, with potash prices stabilized, Agrium is planning to expand its potash production by 40%.

Agrium gets a large part of its revenue from the production and sale of nitrogen. The main input cost for nitrogen is natural gas. After a brutal winter that drew down natural gas reserves and drove up prices, record natural gas production and a cool summer have quickly brought prices much lower. The decreasing natural gas price means better margins for Agrium's nitrogen division.

The company has increased its dividend significantly in the past three years and plans to buy back 5% of its shares by the end of Q1 next year.

Agrium currently pays U.S.$3.00 per share, yielding about 3.2%.

CATEGORY

1. Investing

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1. NASDAQ:TRI (Thomson Reuters)
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