Profit From the Weakening Canadian Dollar

Description

Hovering at close to $0.80, the Canadian dollar has sunk to lows not seen since 2008-2009, the result of the dramatic fall in oil prices followed by the unexpected interest rate cut that the Bank of Canada surprised the market with last week.

What investors must keep in mind is that what is bad for one segment of the economy is oftentimes good for another segment. In this case, the weakening of the Canadian dollar has positive implications for the manufacturing sector, as Canada's products become more competitive globally. Further, the simple translation of foreign currency-denominated revenues into Canadian dollars will bump up revenues of companies that report in Canadian dollars.

Companies that have a big portion of U.S. 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 not only benefit from the conversion of their revenues into Canadian dollars, but also from the fact that they will eventually see increased demand because their products and services will be cheaper for customers outside of Canada.

As an example, **ATS Automation Tooling Systems Inc.** (TSX: ATA), which provides manufacturing solutions to multinational companies in a variety of industries and has a market cap of $1.31 billion, reports in Canadian dollars but generates the bulk of its revenue in other currencies. For the six months ended September 30, 2014, Canada represented a mere 6% of revenue, while 39% of revenue was from the United States and Mexico, 16% of revenue was from Germany, and the rest was from Asia and the rest of Europe. The stock has a three-month return of 15%.

CAE Inc. (TSX: CAE)(NYSE: CAE) also generates a big portion of its revenues from outside of Canada. In the six months ended September 30, 2014, CAE reported just over $1 billion in revenues, with 32.5% of that revenue generated from the U.S. and 32.5% generated from Europe. Canada represented only 7% of revenue. The stock has a three-month return of 8.3% and has shot up from below $14.80 to over $16 in the month of January.

With 42% of its revenues derived from the U.S., **Stantec Inc**. (TSX: STN)(NYSE: STN) also stands to benefit from the weakening Canadian dollar. The company is already performing well, with a strong balance sheet and good cash flows. In the last nine months, revenue increased 12.6% and net income increased 14.5%. So the positive impact of the weakening Canadian dollar on Stantec's results will be icing on the cake. The stock has declined over 13% in the last three months but with the weakening dollar, we can expect the company's financial results and therefore stock, to react positively this year.

Another company that reports in Canadian dollars and derives a big portion of its revenues from the U.S. is **Martinrae International Inc.** (TSX: MRE), an auto parts supplier. The company generates 38% of its revenue from the U.S. It has been plagued with problems, but this is a clear bright spot 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. With a new CEO and a lower Canadian dollar, this stock seems to have a brighter future than it has seen in a while.

Bottom line

The change in the Canadian dollar exchange rate is one of many factors to consider when looking at existing or potential investments. This being said, investors should pay attention when there is a significant change in any one variable in the market, as there has been with the Canadian dollar. We can expect to see the positive impact of the decline in the dollar in the results of the companies discussed in this article flow through to the bottom line and of course, the stock price.

CATEGORY

1. Investing

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