



Bullish on the Loonie? Buy These 3 Stocks

Description

Although the longer-term trend is decidedly negative after our currency spent years at par—or better—versus the American dollar, it's been a good nine months or so for the loonie.

After hitting an 11-year low of US\$0.68 back in January, our dollar has rallied sharply, briefly getting close to US\$0.80 before settling in a trading range of between US\$0.75 and US\$0.78.

A number of different factors have made some investors bullish about Canada, including improving commodity prices, government intervention in the housing market, and strength in our largest trading partner, the United States.

If you believe this trend will continue and the Canadian dollar will hit US\$0.80, US\$0.85, or even approach close to par again, you'll want to load up on these three stocks.

Retailers

The logic is simple. Canadian retailers import a lot of stuff from China. Since China's currency is pegged to the U.S. dollar, these imports have gotten more expensive as our dollar has deteriorated against the Greenback. Thus, costs are going up.

Dollarama Inc. ([TSX:DOL](#)) has dealt with this in a predictable, yet smart way. Rather than eat the costs and take lower margins, Dollarama abandoned its practice of only pricing items at \$1 or \$2, increasing the highest price point to \$3. Astute shoppers can even find the odd \$4 item in stores today.

Dollarama is doing pretty well, despite this handicap. In the company's latest quarter, it grew total sales by 11.6% compared to last year, including same-store-sales growth of 5.7%. Operating income was up 14.5%, and net earnings increased 18.9%, hitting \$0.88 per share.

Dollarama would be even more profitable if the company weren't dealing with currency issues.

Another retailer that would be very happy if the Canadian dollar strengthened is **Reitmans (Canada) Limited** (TSX:RET.A), which has become a favourite choice for value investors because of its

experienced management team (which owns a lot of shares), it's cash-rich balance sheet, and generous 3.1% yield. Uber investor Prem Watsa also has a significant stake in the company.

Reitmans is currently dealing with a few different issues. The company has spent much of the last few years closing underperforming stores, investing heavily in an inventory-management system that allowed the company to really ramp up its online division, and getting a better mix of clothing in its namesake chain. In short, Reitmans is cool again—or at least cooler than it was before.

These changes seem to be working out, and investors have noticed. Same-store sales (which include online sales) are up 7.5% thus far in 2016. Gross margins are back up to 56.3%, versus 55% at this point last year. And the company earned \$0.14 per share in its latest quarter versus a slight loss last year.

Shares are up 43% over the last year and could get another boost if the Canadian dollar continues to strengthen.

Airlines

Most of **Air Canada** and **WestJet's** revenues and expenses are in Canadian dollars, so they really don't care about currency movements. Sure, the dollar affects them; it just doesn't matter that much.

The same can't be said about **Transat AT Inc.** (TSX:TRZ), the parent company of Air Transat. The airline is known for flying to Europe and the Caribbean.

The company is struggling for a couple of reasons. Because the Canadian dollar is down, Canadians looking to take a tropical holiday will be forced to spend more. Since Caribbean resorts cater to a lot of Americans, prices are usually in U.S. dollars. That's bad news.

Many of Air Transat's costs are in U.S. dollars too. These two issues have brought the company down from being consistently profitable to losing \$0.13 per share over the last 12 months—although much of the loss was from a few unusual expenses.

The bottom line

As the Canadian dollar recovers versus the U.S. dollar, certain sectors will benefit. If you're a believer, position your portfolio accordingly.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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