



Many Industrials Stand to Lose as the Canadian Dollar Strengthens

Description

With interest rates rising in Canada, and the consequent rise in the Canadian dollar, which is up to \$0.79 from \$0.77 in just a few days and from below \$0.70 in late 2015, it makes sense to consider the effect this will have on different companies if the trend continues.

With the Canadian dollar going up, we can expect companies that have a big portion of U.S. dollar-denominated revenues combined with Canadian dollar-denominated expenses will get hurt the most.

Many industrial companies have a large part of their revenues that come from outside Canada. These companies will not only get hit from the conversion of their revenues to the Canadian dollar, but also from the fact that they will eventually see decreased demand because their products and services will become more expensive for customers outside 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 \$1.2 billion, reports in Canadian dollars but generates the bulk of its revenue in other currencies.

In fiscal 2017, North America accounted for 39% of revenue with the U.S. and Mexico taking the bulk of that. Europe represented 43.7% of revenue, and Asia/Other represented 17.5% of revenue.

Another issue that will further impact the company's results is the fact that contracts are often fixed at certain pre-determined foreign exchange rates, so as the Canadian dollar strengthens, this will have a negative effect on the profitability of those transactions. The stock has a three-month return of 5.3%.

CAE Inc. ([TSX:CAE](#))([NYSE:CAE](#)) also generates a big portion of its revenues from outside Canada, yet it reports in Canadian dollars.

According to the company, a \$0.01 cent strengthening of the Canadian dollar versus the U.S. dollar would have decreased fiscal 2017 revenue by \$13.7 million and operating profit by \$3.6 million. Net of hedges, this decrease in operating profit would be closer to \$500,000.

With 57% of its revenues derived from the U.S. and 11% globally, **Stantec Inc.** ([TSX:STN](#))([NYSE:STN](#))

) will also get hit from the strengthening Canadian dollar. The company has struggled with organic growth recently, with the fourth quarter of 2016 showing a 4.4% decline, and the first quarter of 2017 posting a 2.4% decline.

The 69% increase in revenue in 2016 was driven primarily by acquisitions, but also by organic growth in the water and infrastructure segments. At least the stronger dollar will make any future global acquisitions cheaper in Canadian dollar terms.

All told, the impact of a strengthening Canadian dollar on Stantec's results will be a negative should this trend continue. The stock has declined slightly over the last year, and the strengthening of the Canadian dollar will be a headwind that will put further pressure on the company's financial results and its shares.

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