Retailers That Stand to Benefit From the Strengthening Canadian Dollar

Description

With interest rates having started to rise 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.

In general, with the Canadian dollar strengthening, 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. And by contrast, companies with Canadian dollar-denominated revenue and U.S. dollar-denominated expenses will be beneficiaries.

And this is the case with many of Canada's retailers, as the bulk of their products are sourced in US. dollars.

Canadian Tire Corporation Limited (TSX:CTC.A)

Canadian Tire, which has a one-year return of 4% and a three-year return of 40%, and is one such company. With a significant portion of its products being purchased in U.S. dollars, profitability will be positively impacted by a rise in the Canadian dollar.

On top of this, the company has been working on improving productivity and efficiencies. Diluted EPS increased 14.9% in 2016 to $3.46, with same-store sales in the fourth quarter increasing a robust 8.1%.

Gross margins for the year increased to 34.6% from 33.6% last year and 30% in 2015. And if the Canadian dollar continues to strengthen, we should expect to see more of a positive impact on margins.

Indigo Books and Music Inc. (TSX:IDG)

The majority of the company's general merchandise is globally sourced, and in fiscal 2017, general merchandise accounted for 37.7% of sales. So, with a big portion of costs that are U.S. dollar denominated, an increase in the Canadian dollar relative to the U.S. dollar is positive for the company in that it reduces Canadian dollar costs.

Total same-store sales increased 4.1% in fiscal 2017 and gross margins were 44.6%.

Dollarama Inc. (TSX:DOL)

Dollarama also benefits from the stronger dollar, as most of its products are sourced in China and priced in U.S. dollars. The stock has been on a tear and has a one-year return of 31.5% and a three-year return of 169%, as the company continues to surpass expectations and report very strong sales growth and profitability.

Recall that with the weakening Canadian dollar last year, the company felt the need to pass on some of the increased expense to customers by increasing the pricing on some of its items, so a reversal of this trend is welcome for the company's bottom line.

In summary

Here, we have three solid companies that are producing stellar results and that will get a nice boost should the Canadian dollar continue to strengthen.

CATEGORY

1. Investing

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2. TSX:DOL (Dollarama Inc.)
3. TSX:IDG (Indigo Books & Music)

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1. Investing

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