



6 Stocks That Will Benefit From a Stronger Canadian Dollar

Description

The Canadian dollar is up 10% since May largely on the news of the Bank of Canada's announcement to raise interest rates. Higher interest rates are expected to draw more capital into the economy which bids up the loonie.

Here are six stocks that should benefit from a stronger Canadian dollar.

Canadian Tire Corporation Limited ([TSX:CTC.A](#))

Canadian Tire is one of Canada's largest big-box retailers, selling household goods from small appliances to cookware and sporting equipment. Much of Canadian Tire's merchandise is imported from overseas markets, where it can be manufactured for pennies on the dollar.

A stronger Canadian dollar improves Canadian Tire's purchasing power, which effectively lowers its cost of good sold and boosts profitability.

While shares don't pay much of a dividend at just a 1.11% yield, a dividend hike may be on the way on the company's next earnings call.

Air Canada ([TSX:AC](#))([TSX:AC.B](#))

Air Canada is another company that stands to benefit from a stronger loonie, yet for different reasons. With a stronger dollar, Canadians can afford to travel more out of the country. This bodes well for Air Canada's international business, which the company has been investing in heavily for the past several years.

Add to this the fact that fuel prices, one of Air Canada's largest expenses, are near all-time lows and the fact that its stock trades at just five times forward earnings, and you have a winning combination with this company.

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#))

While a stronger Canadian dollar hurts Canadian exporters, it's good for American companies importing goods into the country.

CNR should benefit from increased importing activity across the U.S.–Canadian border as the country's pre-eminent railway.

Formerly a Crown corporation, CNR made big investments into its rail system, which, today, gives it a huge advantage over competitors; it's the only company able to offer routes to certain regions of the country.

As Warren Buffett would say, the company has a “wide moat” around its business, making it an investment you can sleep easy with at night.

Dollarama Inc. ([TSX:DOL](#))

Dollarama carries goods for arts, crafts, and holiday decorations, among other items. Most of the goods are manufactured outside Canada, making this another company that will be expected to benefit from enhanced purchasing power.

Dollarama shares are up an impressive 23% so far this year but are down slightly over the past few trading sessions, perhaps providing an opportune time to make an investment in this retailer.

Gildan Activewear Inc. ([TSX:GIL](#))([NYSE:GIL](#))

Gilden Activewear is an apparel manufacturer of products including T-shirts, fleece, socks, and underwear.

With markets in the United States, Canada, and other international regions, there may be a bit more of give and take with the impact of a stronger dollar on Gilden's financial performance.

Gilden will benefit from purchasing power over goods manufactured overseas; however, goods that are sold in the U.S. and internationally will be worth less when exchanged for the loonie.

Overall, the net effects should be positive stemming from an improved gross profit margin.

WestJet Airlines Ltd. ([TSX:WJA](#))

WestJet is another airline with a strong balance sheet that already benefits from cheap fuel and now has the tailwind of stronger Canadian travel spending behind it.

WestJet shares have a higher price-to-earnings ratio than Air Canada at 8.7 times, but the company is less leveraged than Air Canada, making it a safer investment.

Speculators may favour Air Canada for exactly this reason, but those investing for the long term will likely be better off with an investment in WJA shares.

Conclusion

Investing can be tricky, especially in today's challenging market environment, but it always helps to

have a catalyst to propel your investments higher.

These companies all have the benefit of a stronger loonie at their back provided that no matter what's happening in the world, you can always make profits provided you're thinking *Foolishly*.

CATEGORY

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TICKERS GLOBAL

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2. NYSE:GIL (Gildan Activewear Inc.)
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