2 Growth Stocks to Consider as the Canadian Dollar Gains

Description

As the Canadian dollar continues to gain on the U.S. dollar, some investors are wondering which stocks will benefit from the strengthening local currency.

The Canadian currency crossed 81 cents to the U.S. dollar — its highest level in two years at the time of writing. Before we talk about the potential investment opportunities, let's try to find out if this latest currency rally has legs.

The recent gains in Canadian dollar have been fueled by robust economic growth, which now seems much stronger than the U.S.'s economy. This divergence in the two economies has some traders now predicting that the Bank of Canada will move faster on interest rates than its U.S. counterpart, the Federal Reserve.

The currency futures show the Bank of Canada will hike rates about two more times by the end of 2018, while barely pricing in a full hike for its U.S. counterpart over the same stretch, according to *Bloomberg* data.

As a result, the yields on two-year government bonds in Canada have surged in recent weeks and are now at about parity with the U.S.

The fast-changing economic picture suggests that this latest move up in the Canadian dollar is going to stick for a longer period of time because the move is backed by strong fundamentals

The companies that are most likely to benefit are those that buy from overseas and sell in the local market. Let's see if Canada's largest airline **Air Canada** (TSX:AC)(TSX:AC.B) and **Dollarama Inc.** (TSX:DOL) stocks deserve a place in your portfolio with the rising loonie.

Air Canada

If you're following this great Canadian turnaround story, then you won't be surprised to know that this stock has soared 63% this year, while many analysts are still bullish on this name.

But a rising local currency adds one more reason to buy Air Canada stock, as higher purchasing power will make it much easier for Canadians to make international trips.

Air Canada just finished a strong summer, carrying nearly one million customers over a six-day period around the Canada Day weekend.

The airline will also benefit from a strong Canadian dollar as some of its main input costs, such as jet fuel, are priced in U.S. dollars.

Dollarama

Just like Air Canada, Dollarama is also an impressive growth story. Its shares have surged 23% this year, as this discount retailer continues to surprise investors with strong earnings.

If the Canadian dollar continues its upward journey, Dollarama will benefit because it imports a significant amount of its merchandise from overseas that are priced in U.S. dollars.

Trading at the price-to-earnings multiple of 31, Dollarama looks a bit expensive. But it seems there is nothing that can stop its stock's upward momentum. After buying at the IPO price of ~$10 a share in 2009, investors have grown their investment at the compound annual growth rate of 40%.

Which one is better?

There isn't much history available for the Dollarama stock to determine how it would perform during a tough economic environment.

But the discount retailers, such as **Wal-Mart**, usually perform better during recessions. If you're not a buy-and-hold type investor, then buying Dollarama with an aim to make a quick profit won't be a good idea.

I like both Air Canada and Dollarama for long-term investments. These positions will likely provide strong growth to your portfolio in the years to come.

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2. TSX:DOL (Dollarama Inc.)

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