The Top 4 Stocks to Short as Rates Continue to Rise

Description

Whenever a change in interest rates takes place, it is normal for businesses and consumers to adjust how long-term purchases are financed. On the one side are borrowers — consumers and businesses who pay interest (now at a higher rate) — while on the other side are the lending institutions now loaning money at higher interest rates.

The result of higher interest rates is a higher cost to borrow for the borrower and a higher amount of revenue for the lender. Moving forward, there are certain companies that may be able to weather the storm better than others. Let's look those that may have a more difficult time with the higher rates.

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) has close to US$28 billion in debt, which is being repaid at a snail's pace. In addition to increasing interest rates, the company has been forced to sell a number of revenue-generating assets, thereby reducing future revenues. Although the rising interest rates will act as a headwind for the company, the business risk is also a major factor.

For investors who'd sought out an investment that produced ongoing income, shares of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) may have hit a peak for years to come. Enbridge has seen revenues move sideways, while the amount of long-term debt has increased. In the past fiscal year, the dividend-payout ratio was no less than 84%, as the total amount of shareholders' equity declined by almost $3 billion over the first half of this year. A 1% increase in rates will add more than $600 million in interest expenses.

Given that the company made a total profit of $2.07 billion in fiscal 2016, any significant increase in interest rates will have a significant impact on its ability to deliver shareholder value and could potentially put the dividend at risk.

Another Canadian giant that is vulnerable to increasing interest rates is **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK), which carries long-term debt of $6.3 billion. Given that the company's profits were only $1 billion in fiscal 2016 and it had a loss of $2.5 billion the year before, both liquidity and solvency can become concerns very quickly should the company fail to see a pickup in resource prices.

Last up is **Bombardier, Inc.** (TSX:BBD.B), which is a major short sell for different reasons. Given that the company manufactures rail cars, the long-term nature of its business means that a buyer's ability to finance the purchase is crucial. With more companies and cities feeling strapped for cash, the headwinds felt by the Quebec-based company will only increase over time.

Currently, the company's balance sheet is not in great shape as total liabilities are close to $29 billion and total assets fall very short, coming in at $23.4 billion.

As rates have remained low for close to a decade, many companies have taken advantage by altering the capital structure to include more debt and less equity. As low interest rates are expected to reverse over time, investors may be wise to position themselves accordingly.

CATEGORY

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2. NYSE:ENB (Enbridge Inc.)
3. NYSE:TECK (Teck Resources Limited)
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Date
2025/07/04
Date Created
2017/09/08
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