3 Currency-Sensitive Companies to Buy in the Face of NAFTA Risks

Description

With a number of Canadian industries highly sensitive to exchange rate movements, and changes in the CAD/USD exchange rate, investors attempting to value said companies in the face of NAFTA concerns certainly have a significant amount of homework to do. While it appears that progress is currently being made in recent NAFTA talks between Canada, the U.S., and Mexico, the risk that NAFTA is eliminated remains a significant question mark for investors in thinking about how such a move would potentially affect Canadian companies.

With many believing the risk of a NAFTA pullout from the U.S. remains low, this is a risk which should certainly be considered by investors in companies with significant operations in the U.S. market, as changes in the exchange rate between Canada and the U.S. is likely to drive profitability north of the border.

In companies such as **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN), for example, which have the vast majority of their revenues originating in the U.S. but have earnings displayed in Canadian dollars, a rising U.S. dollar as compared to the loonie will positively impact earnings for investors holding shares of AQN traded on the TSX.

Companies such as **Canfor Corporation** (TSX:CFP), with a similar revenue profile and heavy ties to the U.S. market for its softwood lumber products, will also benefit from a strengthening Canadian dollar. As the U.S. economy is expected to continue to improve, a stronger U.S. economy benefiting from the recent tax changes put in place by the Trump Administration would further the case that housing starts would continue to pick up steam, and Canadian softwood lumber producers would benefit in the near to medium term.

Another company with positive upside in a weakening Canadian dollar environment would be **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) due to the significant percentage of the company's revenues that originate in the U.S., given the company's strong business relationships and ties to cross-border freight. CP Rail would be another beneficiary of a strengthening American economy coupled with a weak Canadian dollar.

Bottom line

While companies such as Algonquin also carry interest rate risk related to future Bank of Canada interest rate hikes, a weakening Canadian dollar would be a good thing for these three companies, and I would suggest investors bearish on the medium- to long-term outlook for the Canadian dollar should consider exposure to these companies or the industries they operate in.

Stay Foolish, my friends.

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