Is a Low Loonie Good for TransCanada Corporation (TSX:TRP) and These Stocks?

Description

The loonie has been dropping compared to the greenback for most of 2018. Energy stocks were doing so badly that pundits started warning that foreign investors had given up on Canadian markets. But have you noticed that despite intensified trade talks, many energy and utility stocks have really taken off?

I've held on to my shares of **Fortis Inc.** (TSX:FTS)(NYSE:FTS), a large-cap utility company that supplies large segments of North America with power. The stock has not done well year to date, but I'm now watching this trend reverse.

I didn't add more shares to my portfolio when Fortis hit $40 a share. Instead, I focused on other TSX stocks that were also undervalued. If you are not going to invest in Canadian companies when they are cheap, then when will you?

Catching energy sector momentum

If you are still holding on to **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) shares, then take a moment and give yourself a pat on the back. Do-it-yourself investors, like me, have to stick to their principles. Why did you buy TRP in the first place? Probably because it is a solid dividend-paying stock, and the $3 billion in quarterly revenue generates enough profit to pay the dividend. The dividend-payout ratio is the lowest it has been in several years. Ergo, shareholders' income is safe.

Although the stock price is down 13% year to date, the narrative I just described is largely unchanged. Fellow Fool writer Andrew Walker considers the sell-off overdone, and I tend to agree.

TransCanada has two out of 10 bad annual earning years. I like those odds. Other good news is that the earnings per share is now $3.52 — roughly twice the 10-year average.

High risk and reward with a building materials supplier

If you are looking for a riskier dividend play, then focus your gaze on **CanWel Building Materials Group Ltd.**

(TSX:CWX), a $560 million market cap company based in Vancouver. This company supplies building materials for home construction in the U.S. and Canada.

This small-cap company is growing rapidly, pays a 7% dividend, and has solid fundamentals. The gross margins, for example, tend to be in the double digits with each quarter. This was indeed the case for Q1 2018, with revenue of $294 million and gross profit of $46 million (gross margin: 16%).

Home construction business in Canada is dwarfed by business in the U.S. On June 12, the company announced a cash acquisition of a lumber pressure treatment plant called Superior Forest Products in Oregon that will give CanWel an extra toehold on the U.S. market. A low loonie can also help clear inventory by selling more to the U.S. The Q1 report shows that CanWel has $276 million in inventory — an amount that's up from the previous quarter.

Bet your bottom dollar

If you are looking for a safe and high-yielding dividend play, then TRP is a good bet. I believe it put in a bottom, reaching a two-year low in April. Meanwhile, if you want to spice up your portfolio, then CanWel is a good small-cap pick, because it has sales and cash flow to keep the 7% dividend yield going. A low loonie is a tailwind for companies, like TRP and CanWel, that sell into U.S. markets.

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