A Canadian Dividend Stock to Benefit From U.S. Dollar Strength

Description

The Canadian dollar is in a cyclical downturn when compared to the U.S. currency. Over the medium term, I don't see economic factors supporting the loonie and taking it back to being at par with the U.S. dollar.

On the interest rate differential, the Canadian dollar is unlikely to get a major boost either. The Federal Reserve is ahead in the tightening curve, and Canada is facing a lot of headwinds, such as trade wars, NAFTA, and a slump in commodity demand. All these factors combined are likely to keep the Canadian currency under pressure in the next five to 10 years.

If that scenario is true, and you as an income investor want to benefit from the weakness of the Canadian dollar, then it makes sense to have some exposure to stocks that pay dividends in the U.S. dollars. **Intertape Polymer Group** (TSX:ITP) is one such company; it is positioned well to benefit if the U.S. dollar strengthening against the Canadian dollar continues. Let's have a closer look at this company.

Business strength

ITP is a Montreal and Sarasota, Florida-based maker of packaging products, such as carton sealing tapes, industrial and specialty tapes, and fabrics that are used in industrial, automotive, and aerospace applications.

ITP runs 15 manufacturing plants: 13 are located in North America, one is in Portugal, and one is in India. ITP earns 83% of its revenue from the U.S., mostly selling tapes and films.

The company pays investors a quarterly dividend of US$0.14 per share, or US$0.56 per share yearly. This translates into an annualized dividend yield of 4% at the time of writing. Though the company has maintained its dividend at this level since September 2016, investors who translate their earnings into the local currency have greatly benefited from the weakness of the Canadian dollar since 2014.

But before you make an investment decision to buy this dividend stock, you need to be sure you buy it at a right price. During the past one year, ITP stock has fallen about 25% largely due to rising raw material prices and a spike in the transportation cost in North America.

These two factors have shown up in the company's latest results when ITP reported first-quarter earnings that were lower than market expectations.

Its gross margin fell to 21.3% from 22.7% reported during the same period last year. Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) was US$30.2 million, below the Street's expectations of US$31.7 million and down 0.6% year over year. According to management, that squeeze in the profit margin is temporary, as the company is successfully passing the impact of higher costs to consumers.

Should you buy ITP stock?

After the recent slide, ITP stock looks cheap relative to its historical average multiples. Its shares trade at a price-to-earnings multiple of 11 times the 2019 consensus estimate — well below both its three-year historical average P/E multiple of 13.4 times as well as its five-year historical average P/E multiple of 13 times.

Trading at $18.27, I see a good upside potential in this stock when compared to the average 12-month target price of $25.17 by analysts. This implies the stock has 38% upside potential over the next year. I think ITP offers a good bargain if you plan to keep this name in your portfolio and play the strength of the U.S. dollar.

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