## 2 TSX Index Stocks to Play a Strong U.S. Dollar

## Description

Falling oil prices are helping drive down the value of the Canadian dollar against its counterpart south of the border.

A weak loonie tends to benefit Canadian exporters, but it also helps companies that have large American operations. When U.S.-based profits are converted to Canadian dollars, earnings can get a nice boost.

At the time of writing, the U.S. dollar is worth $1.365 Canadian, approaching the highest level we have seen since early 2016.

Let's take a look at two companies that have significant U.S. operations and might be interesting picks for your portfolio today.

# Fortis (TSX:FTS)(NYSE:FTS)

Fortis is a large North American utility company with $50 billion in natural gas distribution, power generation, and electric transmission assets. Most of the businesses operate in regulated markets, meaning the revenue stream and resulting cash flow should be reliable and predictable.

Fortis grows through strategic acquisitions and organic development. In recent years, management made big bets in the United States, spending more than US$16 billion to buy Arizona-based UNS Energy and Michigan-based ITC Holdings. The integration of the two companies has gone well, and the businesses are performing as expected.

With the addition of these two companies, Fortis shifted the asset mix to the point where the company gets more than half of its revenue from the American operations.

Looking ahead, Fortis has a $17 billion capital program in place that should increase the rate base substantially in the next five years. The resulting cash flow growth should support annual dividend increases of 6% through 2023. If the U.S. dollar remains at its current level against the loonie or drifts

higher, investors could see even larger dividend hikes.

The current payout provides a yield of 4%.

# Toronto Dominion Bank (TSX:TD)(NYSE:TD)

TD began its serious foray into the U.S. retail banking market in 2005 with its purchase of a majority stake in Maine-based Banknorth Group. TD later took total control of the company and then bought New Jersey-based Commerce Bancorp for US$8.5 billion.

Other deals followed and TD has now spent more than $20 billion to build its U.S. operations. Analysts initially questioned the wisdom of the early moves, but the bets appear to be paying off more than a decade later. The U.S. economy has strengthened in the wake of the Great Recession, and the U.S. dollar, which traded on par with the loonie at one point, has gained significant ground.

Add the recent tax cuts in the United States as well as the boost to net interest margins created by rising U.S. interest rates, and you have a positive situation for the Canadian banking giant. TD now gets about a third of its profits from the U.S. operations that run right down the American east coast from Maine to Florida.

Management expects earnings per share to increase by 7-10% per year. That's probably a bit conservative. TD has a compound annual dividend-growth rate of about 11%, and the solid trend should continue.

The dividend provides a yield of 4%. TD's stock price has pulled back to the point where it trades at just 1.7 times book value compared to its five-year average of 1.9 times.

# The bottom line

Currency rates can fluctuate, and a rebound in oil prices could reverse the recent trend, but TD and Fortis should be solid buy-and-hold picks regardless of where the exchange rate goes. If you have some cash sitting on the sidelines, these stocks deserve to be on your radar.

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