3 Top Stocks to Pop as the Loonie Continues to Drop

Description

Despite oil's recent rally, the loonie can't seem to find a way to stay above the US$0.75 mark. It's frustrating for Canadians, especially for those of us who see value in the markets south of the border. While it may seem like Canadians are getting the short end of the stick, there are ample ways to hedge oneself against the weak loonie that's been dubbed by some snarky pundits as the "Northern Peso."

Without further ado, here are three Canadian ways to hedge yourself against a falling loonie. Each company treats a lower loonie as a tailwind, so if you find the pain from a weak Canadian dollar is too much, you may want to expose yourself to one or all of the names I'm about to mention. Coincidentally, all three stocks are wonderful businesses that I own in my portfolio.

Alimentation Couche-Tard (TSX:ATD.B)

Couche-Tard is a truly global company with a massive presence in North America and Europe. The company's flagship banner Circle K is a staple in the U.S. market, so, as you'd imagine, the company is pulling in a huge amount of greenbacks, which are worth that much more when the loonie continues its tumble.

Of late, management has experienced a pop to its same-store sales growth (SSSG) numbers and a significant improvement to its fuel margins. As the U.S. economy re-accelerates into the latter part of 2019, Couche-Tard could be ready to experience a colossal top- and bottom-line surge that'll only be amplified by a further weakening of the loonie.

Of all stocks mentioned in this piece, Couche-Tard is my favourite way to play the falling loonie. The business itself is terrific, and the valuation is still quite modest at 17.1 times trailing earnings.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

CN Rail is North America's most efficient railway, and although some may be on edge over the "revolving door" of CEOs since Claude Mongeau's untimely departure from the helm, I think rookie

CEO J.J. Ruest has what it takes to improve CN Rail's operating ratio further, even with all the rise in capex to meet surging transport demands.

With a vast network that expands south of the border, touching down with the Gulf Coast, CN Rail reports a considerable amount of its revenues in U.S. dollars. Management once noted that for every US$0.01 fall in the loonie's value, CN Rail's earnings would increase by $30 million.

If you're like many loonie bears and think that the loonie could be headed for a tailspin to the US$0.60 levels, CN Rail's bottom line will get a nice boost.

Fortis (TSX:FTS)(NYSE:FTS)

If you're a retiree who's worried about that coming recession, Fortis is probably more your forté. The regulated utility conducts a tonne of business in the U.S. with ITC Holdings, which is a big deal out in the Midwest.

Should volatility prevail, Fortis will continue to rake in the greenbacks as per usual. So, you don't need to worry about decaying fundamentals or a reduction to the dividend payout, because Fortis is the closest thing you'd get to a guarantee in the equity world.

As the perfect bond proxy, Fortis commands a bit of a premium at over 20 times trailing earnings. But if you want a safe hedge against the falling loonie and don't want to overexpose yourself to the market as it continues surging to new all-time highs, the premium price tag is well worth paying, especially if you've got a long-term horizon.

Foolish takeaway

So, there you have it. Couche-Tard, CN Rail, and Fortis, three top beneficiaries of a falling loonie that are hot, medium, and mild, depending on your tolerance for risk at this juncture. In any case, I have no problem recommending all three to investors, regardless of which direction the loonie is headed next.

If the loonie continues tumbling, all the better for these three stocks.

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Date
2025/08/24
Date Created
2019/04/28
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