



## Investors: This Furniture Store's Stock Could Profit From a Stronger Canadian Dollar

### Description

The Canadian dollar is [on the rise](#) — and while this is great news for travellers, it [presents challenges for investors](#). Many Canadian businesses depend on trade with the U.S., so the more valuable the Canadian dollar gets, the less competitive they become. This effect is most pronounced in export businesses, but it can affect shipping companies as well.

With bullishness in oil and many signs pointing toward a stronger economy, the Canadian dollar may continue rising for some time. In this environment, it pays to buy stocks that won't suffer too much from a rise in the loonie. In this article, we'll take a look at one stock that fits the bill.

### Leon's Furniture

**Leon's Furniture** ([TSX:LNF](#)) is a furniture company that does business exclusively in Canada. That factor alone makes its stock relatively dependable in times of currency appreciation: its revenue is unaffected by currency fluctuations.

However, it's not revenue but expenses that make Leon's especially attractive with a strong Canadian dollar. Leon's stores sell a number of furniture and electronics products, almost all of which are imported. The stronger the Canadian dollar gets, the cheaper all of these things are to import, which makes Leon's more profitable.

### Leon's recent results

Leon's posted a relatively strong year in fiscal 2018.

For the year, the company's revenue was up 1.2% (\$2.2 billion), net income was up 14.9% (\$1.45 per share), and shareholders' equity was up 10.9%. These results were driven by aggressive new initiatives, which saw the company slash its debt and beef up its e-commerce presence.

A more sour point was the first quarter of 2019, which saw revenue decline from \$500 million to \$499 million and net income shrink from \$14 million to \$9.3 million. A Q1 sales decline is not surprising, since furniture stores typically sell more in the third and fourth quarters, but the more dramatic slide in net income is harder to explain. According to the company's Q1 press release, it was largely attributable to a one-time increase in depreciation and amortization expenses.

## How high can the Canadian dollar go?

So far, we've established that Leon's is a highly profitable business that could become even more profitable with a strong dollar.

The question is how far the dollar will go. Although CAD has made some quick gains recently, they're ultimately negligible. To really see a big effect, we'd need a change of 10% or more.

That may indeed happen. History shows that while the CAD is usually weaker than the USD, the currency pair tends to fluctuate over time. After the financial crisis, CAD went PAST parity, at one point being worth US\$1.07. The strong appreciation was driven by the fact that Canada was less affected by the crisis than the U.S. was — with Canadian banks notably coming out relatively unscathed. In the next recession, if American banks once again enter a crisis, then the CAD may reach parity once more. Another possible driver of a strong CAD would be bullishness in oil, since CAD tends to correlate with the price of crude.

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