Loonie Plunges: 2 Stocks to Buy As the Canadian Dollar Falls Below US$0.70

Description

The loonie plunges — yet again.

The Canadian dollar pulled back again on Tuesday, following yet another fall in oil prices (West Texas Intermediate is currently at US$26). The ailing loonie now worth a mere US$0.70, making it tough for Canadian investors to pick away at the bargains south of the border.

The loonie is known by some as the petrodollar, and following the breakdown of OPEC+, the petrodollar has taken a nasty tumble in conjunction with oil.

As it continues losing ground versus the greenback, people may soon start referring to the loonie as the northern peso. It's a tight spot to be in for Canadians who are keen on buying U.S. stocks amid the coronavirus crash.

The exchange rate has gone from unfavourable to downright painful in recent weeks. Fortunately, there are ways to hedge your portfolio from a depreciating loonie that may not be close to bottoming out anytime soon.

The bargains on the **TSX Index** are now abundant. As such, there's no need to feel obliged to swap currencies at hideous rates.

Moreover, there are cheap Canadian stocks that stand to benefit from further loonie plunges. Consider shares of **Alimentation Couche-Tard** (TSX:ATD.B), and **Canadian National Railway** (TSX:CNR)(NYSE:CNI).

Couche-Tard

Couche-Tard is a convenience store kingpin that's in a spot to come roaring back through the coronavirus-triggered recession that's just around the corner.

As one of the few consumer staples out there, Couche-Tard can weather the storm (and loonie plunges) as Canadians tighten the belt in response to one of the worst economic interruptions in recent memory.

Couche plans to double profitability in five years, and I believe they can do it, even with the looming recession. The global convenience store operator has a vast and growing presence in the U.S., rendering the company better off as the Canadian dollar gradually retreats relative to the greenback.

Moreover, Couche is also in a position to scoop up one of its Australasian peers at a considerable discount to intrinsic value.

The Caltex Australia deal is still ongoing, and now that we're on the cusp of a global recession, I find it more likely that Couche will be able to get an incredible deal if it shows a willingness to walk away.

Caltex is a convenience store operator that was facing tough times well before the pandemic hit. So, I see Couche as having almost all of the leverage now. And that's all thanks to the impeccable patience of CEO Brian Hannasch and his team.

The stock trades at 14 times forward earnings, making the stock unsustainably undervalued given the sustainable double-digit long-term growth rate.

Canadian National Railway: a hedge from future loonie plunges

CN Rail is the heart of the North American economy with a unique rail network that spans all three North American coasts. The company rakes in a substantial amount of revenue from south of the border, which bodes well for the Canadian company as its home currency takes a tumble.

The perfect storm of issues has hit the rail of late, but it maintains its resilience relative to the **TSX Index**. Strikes, blockades, an oil plunge, and the coronavirus have hit the company, but unlike most other firms out there, it will come roaring back when the headwinds gradually fade away.

CN Rail offers a necessary service and will fall far less than most other stocks in the face of a recession. Just look at how resilient CN Rail was during the Financial Crisis, and you'll see just how "wonderful" the company is despite the baggage that's been piling up.

While favourable currency moves are unlikely to offset the plentiful headwinds that lie ahead, I am a fan of the name as a slight hedge against further loonie plunges.

The stock trades at 15.2 times forward earnings, which is far lower than the stock's five-year historical average P/E of 18.4. Challenges lie ahead, but CN Rail will pull through like it has every single time in the past, and it'll continue hiking its dividend while other firms cut theirs.

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