60-Cent Loonie Looming? Hedge Your Portfolio With CN Rail (TSX:CNR) Stock

Description

How low can the loonie go? That's the question on the mind of many Canadians following its recent bout of weakness amid the coronavirus crisis. Some pundits believe that a 60-cent loonie isn't out of the ordinary following the recent decimation of the Canadian energy sector.

The coronavirus-induced rout in oil prices inexorably led to a further weakening of the Canadian dollar (also known as the petrodollar). Things have gotten bad for Alberta's ailing oil patch, and they could have the potential to get much worse before they get any better.

Some of the less liquid energy players will undoubtedly go under, and their shockwaves will be felt in other sectors of the Canadian economy.

As Canada's ailing energy industry continues crumbling in the face of the perfect storm of headwinds, now is looking like as good a time as any to hedge yourself from what could be another leg lower for the loonie.

Moreover, the loonie tends to depreciate substantially relative to the greenback when the broader markets crumble.

As global markets look to retest their late-March lows in response to what's likely to be some hideous second-quarter earnings and economic numbers, investors would be wise to consider picking up shares of **CN Rail** (TSX:CNR)(NYSE:CNI), a resilient Canadian company that stands to benefit as the Canadian dollar weakens relative to the greenback.

Is it wise to buy CN Rail stock as a currency hedge in the face of a recession?

We're very likely in the middle of a severe recession right now. As an economically-sensitive railway, CN Rail is going to face its fair share of pressures up ahead, as aggregate rail shipments look to grind to a halt.

Fortunately, rail shipments are, on average, more stable in Canada than in the states, putting CN Rail is in a great spot to hold its own through these difficult times and outperforming its U.S. peers even as the lights continue to be dimmed on the global economy.

With a substantial chunk of its total revenues derived in U.S. dollars, CN Rail has a natural hedge against a depreciating loonie. It's this hedge that can help CN Rail stock face dampened downside when the next wave of selling rocks this market and sends the loonie tumbling into 60-cent territory.

Management previously noted that every US$0.01 change in the loonie would affect CN's net income by around $30 million. A substantially weaker 60-cent loonie could give CN's bottom-line numbers some much-needed relief to partially offset broader macro headwinds.

Foolish takeaway

Given the continued resilience of the firm that's stood tall in the face of strikes, blockades, the coronavirus, among other headwinds, CN Rail stock ought to be trading at a hefty premium.

But today, shares are modestly discounted at 5.3 times sales and 12.2 times enterprise value/EBITDA, both of which are lower than the stock's five-year historical average multiples of 5.72, and 12.4, respectively.

If you're of the belief that we're headed for a 60-cent loonie, CNR is looking like a pretty darn cheap way to hedge yourself and do reasonably well, even in a pandemic-plagued recessionary environment.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/07/17
Date Created
2020/05/18
Author
joefrenette