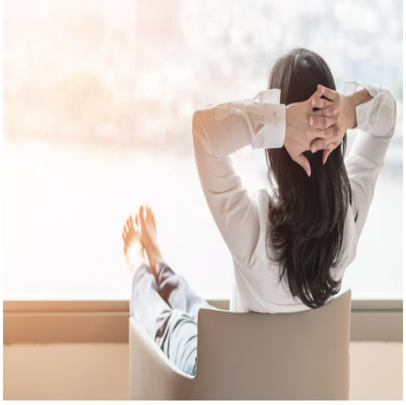

2 Stocks to Buy With Bank of Canada's Low Interest Rates!

Description

In the wake of the COVID-19 pandemic, the Bank of Canada has reduced interest rates to some of the lowest on record. Presently, the target overnight rate is 0.25% while the bank rate is 0.5%. The Bank brought introduced lower interest rates to combat the economic fallout from COVID-19.

Lower interest rates mean that capital is cheaper for businesses, an indispensable lifeline at a time when revenue is cratering.

Generally, almost all businesses stand to benefit from lower interest rates. When borrowing is cheaper, companies can expand more cheaply. Banks with lot of floating rate loans may lose income from lower rates, but almost all other businesses benefit.

Capital-intensive businesses, in particular, stand to benefit, as their recurring costs become cheaper to finance.

With that in mind, here are two capital-intensive companies whose shares could rise if low interest rates persist.

Fortis

Fortis Inc (TSX:FTS)(NYSE:FTS) is a utility stock that unambiguously benefits from today's low interest rates. The company is currently pursuing an $18.8 billion capital expenditure plan, set to roll out over five years. The plan will be financed by debt, and with low interest rates, that $18.8 billion will be cheaper to access.

Fortis' capital expenditure plan was designed to improve the company's business and increase its rate base. The money will go toward improving aging infrastructure and connecting Northern communities to the electrical grid.

These initiatives could increase Fortis' earnings by reducing service outages and adding new customers to Fortis' service area. While the bottom line impact of these expenditures remains to be seen, their financing will be cheaper because of lower interest rates.

CN Railway

The **Canadian-National Railway** (TSX:CNR)(NYSE:CNI) is Canada's largest railway company. It operates a massive freight network that ships $250 billion worth of goods a year. Like utilities, railroads are extremely capital intensive businesses. Thus, they benefit from lower interest rates.

In 2019, CN Railway issued $1.2 billion worth of securities in the Canadian capital markets. If CN issues more bonds in 2020, they will be less expensive to the company than those issued last year. This is a huge benefit to a capital-intensive business like CN, that borrows heavily every year.

CN also uses non-revolving credit facilities. Its 2019 annual report showed that these had variable rates. Thus, drawing on them will be cheaper for the company in 2020.

All in all, CN unambiguously benefits from lower interest rates. In addition to being able to issue bonds more cheaply this year, the company will also pay less on floating rate debt it already has. This makes it less expensive for the company to upgrade infrastructure, buy new rail cars, acquire competitors, and more.

With or without low interest rates, CN is a great stock. With a solid competitive position and a network that reaches three coasts, it's a classic "moat" stock. Now, with low rates, it's more appealing than ever.

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