Soaring Loonie: 3 Stocks to Buy With a Strong Canadian Dollar!

Description

Over the past several weeks, the Canadian dollar has been making gains against the U.S. dollar. Worth US$0.756 as of this writing, it has made huge gains since March, when it went as low as US$0.69.

For many Canadians, the dollar's gains can look like a positive. Indeed, they do come with benefits — cheaper U.S. vacations being just one among many.

But the dollar's strength is actually bad for Canadian business. Canada's economy depends heavily on exports to the United States. The higher the dollar goes, the less attractive those exports become. Additionally, sales to the U.S. get a negative currency exchange impact when the dollar is strong.

For these reasons, a strong loonie is generally bad for Canadian stocks. The higher the dollar goes, the less valuable exports become.

Not all Canadian stocks are impacted this way by a strong loonie, however. As you're about to see, domestic-oriented stocks stand to gain in an environment where the loonie is strong, as the stronger dollar simply means lower import costs for these companies. Most large publicly traded Canadian companies definitely aren't in this boat. But a few are. The following are three that would be worth looking into.

Suncor Energy

Suncor Energy is a highly domestic-market-oriented energy company. It extracts and refines crude, then sells it directly to Canadian consumers through Petro Canada stores. This business model means that Suncor's revenue isn't too heavily impacted by currency exchange rates. As long as Canadians are filling up at the pump, and as long as the price of gasoline is healthy, Suncor will make money. On that note, the price of oil has been steadily rising over the past few months, with WTI futures at a decent $42 as of this writing.

Dollarama

Dollarama is a classic example of a company that profits from a strong Canadian dollar. Like Suncor, it sells mainly to Canadians, which means it doesn't lose from tanking exports. It also has another factor going for it: heavy reliance on imports, which get cheaper when the dollar rises. According to Dollarama's 2019 ESG report, 90% of Dollarama's products come from China, the U.S., and Canada. The Canadian dollar has been rising against not only the U.S dollar, but also the yuan, so it looks like Dollarama's expenses are going to trend downward.

Canadian Tire

Canadian Tire (TSX:CTC.A) is another Canadian retailer that stands to benefit from a strong dollar. Like Dollarama, it sells to Canadians, and imports from a variety of suppliers around the world. This puts the company on the winning end of currency exchange fluctuations.

But Canadian Tire has another ace up its sleeve that Dollarama doesn't: it's cheap. After getting beaten down in the COVID-19 market crash, CTC.A trades at just 15 times earnings. The beating was understandable, because Canadian Tire's business got smoked by the pandemic. But it will bounce back when the pandemic is over, and its stock likely will too.

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