The Canadian Dollar Is Stronger: Take Advantage With This 1 Stock

Description

Thus far, the Canadian dollar is underperforming in 2020, because fiscal and current account deficits are dragging the currency. However, it doesn't necessarily mean the imbalances will make the loonie weaker than the U.S. dollar. The structural imbalances across the border are more significant.

Currency experts expect the Canadian currency to make modest headway against the American dollar by year-end 2020. The stabilizing oil prices and robust economic recovery should help the loonie differentiate itself from its big-dollar neighbour soon.

A stronger currency is a boon for Canadian importers, because they can buy more goods from abroad. Inversely, it becomes more expensive for foreign countries to import goods from Canada.

Critical imports

If you're looking to invest in a top importing company whose value could multiply over the long term, pick **Canadian National Railway** (TSX:CNR)(NYSE:CI). The 101-year-old company operates the largest railway in Canada. Its rail network spans Canada and the Midwestern and southern United States.

Rails are important to Canada's economy, and CNR in particular is the freight backbone for North America, as it covers the Atlantic to the Pacific to the U.S. Gulf Coast. The company is well managed, if not one of the best rail franchises in the region. The company imports various goods from abroad that are critical to maintaining the railway's efficiency.

Among the imports are axles, wheels and parts, air brakes and parts for railway rolling stock. CNR also brings in locomotive parts, railway maintenance-of-way service vehicles, plus signalling devices for railways. Other international intermodal volumes the company handles include auto parts, electronics, and clothing.

Investment thesis

The bad years of rails are over. CNR is nearly perfect when it comes to running the business. This $96.71 billion railway operator is looking to better volume growth, better margins, and free cash flow growth. Management expects to grow the bottom line by around 10% through organic growth and buybacks.

This industrial stock fits long-term investors, because the railway is a great business and resilient regardless of the environment. CNR can achieve its objectives, as it continues to work towards high capacity utilization, cost efficiency, and investments in technology. The company is iron-clad to grow shareholder earnings for another 100 years.

Compared with other sectors, the railway industry is not reeling from the 2020 health crisis’s impact. CNR needs to move or transport large volumes of grain and other essential commodities. Hence, the business should endure and do fine in the long haul.

Unique advantage

CNR tanked below $100 at the market crash height in mid-March 2020 but has since stormed back. At the current price of $135.38, investors’ year-to-date gain is 16.37% with a stable 1.68% dividend. Analysts are projecting no more than an 11.7% annual growth rate in the next five years.

In anticipation of continued volume growth, CNR’s expansion projects at Halifax and Nova Scotia are ongoing. A new container port will rise in Quebec City. Lastly, its network footprint is unique, since it’s the only system that directly serves ports on the west, east, and Gulf coasts. As trade patterns shift, CNR will capitalize.

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Date
2025/08/24
Date Created
2020/09/09
Author
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