2 Stocks Getting a Boost From the Stronger Canadian Dollar

Description

The Canadian dollar has outshone the greenback over the past several months — a trend that I believe is likely to continue in the New Year. The loonie is worth just shy of US$0.79 at the time of writing, and if the Bank of Canada stays out of the way, the U.S. greenback could weaken further such that the Canadian dollar could make a run for US$0.85. You can't really say that the loonie has been strong, as the favourable USD/CAD move has been due to tremendous weakness in the U.S. dollar.

While I'm not a fan of currency speculation, I would urge Canadians to hedge their portfolios if they're overweight in those wildly-popular unhedged U.S. ETFs, which stand to be negatively impacted by continued strength in the loonie versus the U.S. dollar.

With the more favourable exchange rate, there are going to be a handful of winners and losers. This piece will examine two **TSX** stocks that will be major winners from the loonie's strengthening. Shares of both companies are also pretty attractively valued at this juncture, making them buys regardless of where the loonie is headed next.

Dollarama

Canadian-focused discount retailer **Dollarama** (TSX:DOL) could get the currency boost it needs to break out of its long-term ceiling of resistance heading into 2021. The firm, which imports a considerable amount of goods from south of the border will see its purchasing power continue to increase if the loonie's strength versus the greenback continues.

The company itself has done a spectacular job of mitigating the COVID crisis. After coming off a stellar quarterly beat, I'd look to buy the stock here, as the firm continues taking share in the Canadian discount retail scene. At 29.6 times trailing earnings, Dollarama isn't exactly a cheap stock.

When you consider the long-term growth jolt it could get from its stake in Dollarcity, however, it becomes more apparent that Dollarama is a defensive growth gem that's well worth the growth multiple.

Canadian Tire

Canadian Tire (TSX:CTC.A) is another iconic Canadian company that's getting a nice windfall from the strengthening of the loonie versus the greenback. The company imports a number of goods from overseas and stands to see its purchasing power pop as the loonie continues picking up traction.

Unlike Dollarama, Canadian Tire is more of a value play, with shares trading at a mere 16.8 times trailing earnings after soaring 120% off the ominous bottom in March. With the Triangle rewards program, an e-commerce business that enjoyed unprecedented success amid the pandemic, and one of the best liquidity positions out there, Canadian Tire is a retailer that you shouldn't be afraid to own heading into 2021.

The company is riding on a tonne of momentum, and with a potential post-pandemic discretionary spending boom on the horizon, I'd argue that Canadian Tire has more room to run than Dollarama, which is a defensive play that would do better in times are tough.

Foolish takeaway

Both Dollarama and Canadian Tire will be major beneficiaries of a stronger loonie. If you're looking to play defence, Dollarama is the horse to bet on. And if you're looking to play a discretionary spending boom in 2021, Canadian Tire looks to be the better bang for your buck.

In any case, both firms can give your portfolio a currency hedge if you're hurting from the weakening U.S. dollar.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/07/07
Date Created
2020/12/18
Author
joefrenette