The Loonie Is Getting Stronger: 2 Stocks to Consider Buying

Description

The Canadian dollar is showing strength against the greenback to start 2021. One loonie equals 79 U.S. cents is the highest level since 2018. If the American dollar continues to weaken when Joe Biden unveils his stimulus plans next week, it could mean headaches for Canada's domestic export sector.

Benjamin Tal, Deputy Chief Economist of **Canadian Imperial Bank of Commerce**, believes the atypical strength in the Canadian dollar should elicit concern from the Bank of Canada. Tal thinks further interest rate cuts could tamp down the surging Canadian dollar.

Nevertheless, a strong loonie is a boon to exporters like **Stella-Jones** (TSX:SJ) and **Canadian National Railway** (TSX:CNR)(NYSE:CNI). Both companies do business abroad and import raw materials for their respective operations. If you were to invest in import-related stocks, the two are your top choices.

Outstanding stock performance

Stella-Jones did not disappoint investors in 2020 with its 25.18% total return on top of the modest 1.3% dividend. The $3.1 billion producer and seller of treated wood products in North America can easily afford to sustain dividend payments given the low 19.6% payout ratio.

This company supplies railway ties and timbers to rail operators. Electrical utilities and telecommunication companies are the buyers of its utility poles. Stella-Jones is also a supplier of residential lumber and accessories for outdoor applications. Some analysts expect Stella-Jones to benefit from the red-hot housing market in 2021.

In Q3 2020, the company reported a 38% increase in EBITDA, a new high of $138 million, versus Q3 2019. In the nine months ended September 30, 2020, total sales and net income grew by 15.71% and 30.37% compared with the same period last year. Market analysts forecast an average of 19% growth in the next five years.

Top mover of essential goods

Canada National Railway is the hands-down choice of income investors in the industrial sector. This larger-cap stock is a rock-solid investment and a portfolio stabilizer. The stock's total return last year was 21.31%. If you invest today, CNR pays a modest but safe 1.62%.

While CNR's net income in Q3 2020 dropped to $985 million from $1.2 billion in Q3 2019, it recorded its best third-quarter volume on the Canadian grain. According to James Cairns, CNR's senior vice-president rail centric supply, the company can potentially post a record high volume in the home country and above-average in the U.S. this year.

CNR is beefing up its high-capacity hoppers as it prepares to capitalize on the 50% increase in west coast grain export capacity. In Q1 2021, the network would have 4,200 cars to meet increasing demand. The business of CNR is enduring. It owns the only transcontinental railway in Canada.

Likewise, the company's rail and transport services are fully integrated. Aside from grain, CNR is a top mover of aluminum, base metal ore, and iron ore in North America. Furthermore, it transports about $250 billion worth of goods annually covering various business sectors.

Long-term hold

Stella-Jones and Canadian National Railway are high-quality investments for long-term investors. Their respective businesses are critical to keeping the economy churning. A strong loonie favors both companies, although it could overcome economic downturns. This year is an excellent opportunity to take a position in either stock.

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