2 of the Best Stocks to Buy on Loonie Strength

Description

The loonie has been on a tear lately, with the Canadian dollar climbing above the US$0.80 for the first time in months. With the strength in West Canadian Select (WCS) prices, and the heavy weight being taken off the shoulders of other commodities, there are many reasons why the loonie could make a run for US$0.85. Such a level was unthinkable last year, as oil prices flirted with the negative territory, dragging to absurd lows. Now, things are looking up for the loonie and Canadian stocks; I think investors would be wise to capitalize on its strength ahead of what could be a boom for the ages.

Could we see a US$0.85 or even a US$0.90 Canadian dollar over the next year? Given the commodity boom, I certainly wouldn't rule out such a bullish scenario.

In any case, investors looking to play the strength in the loonie should have a closer look at **Dollarama** (TSX:DOL) and **Canadian Tire** (TSX:CTC.A), two Canadian retailers that should be major beneficiaries from an appreciating loonie versus a sluggish U.S. greenback. Of course, you could also swap your cash for greenbacks, but do note that you'll be dinged a currency exchange fee for doing so, making the following Canadian stocks a better bet for most.

Dollarama

Dollarama is the Canadian discount retailer that we all know and love. The essential retailer held its own amid the worst of coronavirus lockdowns but could be in a spot to really take off once the insidious coronavirus pandemic winds down and the frequency of visits normalizes.

For now, Dollarama will continue to face fewer visits and larger basket sizes, which certainly isn't a terrible thing versus most other retailers that have crumbled amid restrictions. Dollarama is also poised to enjoy the rewards that'll come with the loonie's strengthening. The company imports a considerable amount of goods from overseas. A stronger dollar will also help the company get a better bang for its buck. And the savings will go right into the pockets of shareholders who've stuck by the name through this crisis.

Dollarama is also poised to ramp up its growth, with its ambitious plan to open 2,000 stores in Canada this decade. The company is a reopening play, defensive, growth, and value stock, all rolled into one. With the name on the cusp of a technical breakout, I think investors would be wise to buy and hold the name amid the loonie windfall.

Canadian Tire

Canadian Tire is another resilient Canadian retailer that deserves a round of applause for navigating through the worst of this pandemic. Despite the massive run off its March 2020 lows, I still think there's ample value to be had in the brick-and-mortar retailer that's also now flexing its e-commerce muscles.

Like Dollarama, Canadian Tire's purchasing power will go up in conjunction with the loonie. Combine the currency windfall with the reopening of the economy, and you've got the perfect formula for a surging stock. I don't think Canadian Tire stock is done yet, not with the discretionary spending boom that could be underway.

The stock trades at 0.8 times sales and 16.4 times earnings, which is a low price to pay for a well-run retailer with a robust dividend poised to grow at an above-average rate through the 2020s.

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