Canadian Dollar Soars: Here's the Best TSX Stock to Buy Now

Description

The Canadian dollar has been unstoppable of late, recently surging above US$0.81 this week. Unbelievably, the loonie popped a full penny versus the U.S. dollar on Wednesday.

The recent commodity boom (most notably crude and copper) and weakness in the U.S. dollar are behind the recent strength.

Whether the Canadian dollar continues its ascent to parity (don't we all wish?) will be anybody's guess. Regardless, I think that many Canadian investors who've overweighted themselves to U.S. stocks ought to think about hedging their bets with some TSX stocks that will benefit from the recent rally in the Canadian dollar. And if you're light on greenbacks, now may be the time to swap your Canadian dollars, so you'll be ready for your next trip to the states once the COVID-19 pandemic is over.

Dollarama: A top beneficiary of a stronger Canadian dollar

In this piece, we'll have a closer look at one of my favourite contrarian plays in **Dollarama** (TSX:DOL). Shares of the Canadian discount retailer are in the process of breaking out to new highs not seen in years. The company has a renewed growth story, with 2,000 Canadian new locations to open over the next decade, a currency windfall with the recent strengthening in the Canadian dollar, and a steep value proposition ahead of the great economic reopening, which may be a heck of a lot sooner than many of us think.

It's been a while since Dollarama stock has flirted with all-time highs. As you may remember, I called the catastrophic implosion in Dollarama stock well before the fact, back when the stock was a growth staple in the portfolios of many Canadian investors. I'd warned investors that the stock was at high risk of correcting, as its growth rate looked to stagnate. I also slammed the company for repurchasing shares at a time of overvaluation.

Now, over three years later, I'm changing my tune on the name. Things are finally looking up for the name. The company's recent Canadian expansion justifies its growth multiple, and for once, the loonie is working in favour of the discount retail giant, which imports numerous goods from other countries.

As the Canadian dollar climbs higher, Dollarama will have more purchasing power. And the difference will go right back into growth initiatives, dividend raises for shareholders, and, yes, share repurchases.

The great economic reopening could propel Dollarama much higher

Dollarama has been pretty resilient amid the pandemic. It deserves a round of applause for helping Canadians get the essential goods they needed through this crisis. That said, the company was hit with slightly higher overhead costs, and the results were suppressed, as Canadians opted for digital (**Amazon.com** has a plethora of add-on items these days) over physical retail.

As the pandemic ends, Dollarama could come soaring back. The company's last quarter saw profits take a hit due to COVID-19 restrictions and consumer hesitance. It is tough to maintain social distancing in narrow aisles, after all. Due to the pandemic, store traffic dipped by nearly 22% for the quarter.

Foolish takeaway

By the year's end, things will finally be looking up for Dollarama. The Canadian dollar strength is just rally fuel for an already robust earnings grower that could be ready to make a move to $80.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. 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

2. Stocks for Beginners

Date
2025/07/28
Date Created
2021/04/29
Author
joefrenette