2 TSX Stocks That Benefit From a High-Flying Loonie

Description

Canada's gross domestic product (GDP) growth in Q1 2021 seems to indicate its economy is starting to break free from the pandemic's grip. Statistics Canada reports that real GDP grew 1.1% in March 2021 after the 0.4% growth in February. Also, it was the 11th consecutive monthly increase following the steepest drops in March and April 2020.

Meanwhile, the Canadian dollar recently posted a fresh weekly high, despite the economy losing 68,000 jobs in May. The unemployment rate was 8.2%, although Sri Thanabalasingam, a senior economist at **Toronto-Dominion Bank**, expects job growth in the coming months, as provinces prepare to relax restrictions and boost employers' hiring plans.

On the investment front, Canadians should focus on top exporting companies. **Nutrien** (TSX:NTR)(NYSE:NTR) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) should benefit from the rising loonie. Their products are among the country's most valuable export products.

Scale and diversity

Nutrien produces and distributes 27 million tonnes of potash, nitrogen, and phosphate products globally. The $36.69 billion company has an agricultural retail network that services over 500,000 grower accounts. Their customers use Nutrien's products for feed, agricultural, and industrial needs.

In Q1 2021 (quarter ended March 31, 2021), Nutrien's adjusted EBITDA increased by nearly 60% versus Q1 2020. In addition, it generated $476 million in free cash flow (FCF), more than double the FCF in the same period last year. The net earnings were US$133 million as compared to the US$35 million net loss in Q1 2020.

This year, management expects record global potash shipments (68 to 70 million tonnes) due to strong global demand. Nitrogen sales should increase because of strong agriculture fundamentals and a resurgence of industrial demand.

The key strength of Nutrien is the scale and diversity of its integrated portfolio, which provides a stable earnings base as well as multiple growth avenues. At $64.50 per share (+28.29% year to date), the industrial stock pays a 2.85% dividend. Market analysts forecast the price to climb between 18.6% and 31.6% in the next 12 months.

Unique business model

Canada ranks among the world-leading nations for exporting crude oil. Canadian Natural Resources achieved a record quarterly production of approximately 1,246 MBOE/d in Q1 2021 (quarter ended March 31, 2021) on top of a record quarterly liquids production of over 979,000 bbl/d.

As a result, the company reported $1.37 billion net earnings versus the $1.28 billion net loss in Q1 2020. Because of the effective and efficient operations plus high operating levels, CNR's large and diverse asset base realized strong netbacks. Its CFO, Mark Stainthorpe, said, "Canadian Natural is in a strong financial position. Our robust business model delivered strong financial results."

Stainthorpe added that CNR's balance sheet strengthened significantly in Q1 2021. The $53.69 billion diversified and independent energy producer also reduced its net long-term debt by approximately $1.4 billion. The excellent quarterly results prove CNR's ability to generate significant and sustainable free cash flow over the long term.

The energy stock is an attractive investment because the business model is unique, robust, and sustainable. At $45.32 per share, the dividend yield is 4.14%. CNR is a Dividend Aristocrat owing to 21 consecutive years of dividend increases.

Bounce back

Canada's economy, including the export sector, is bouncing back partly due to a strong loonie. Economists in the *Bloomberg* survey anticipate the growth pace to return above 6% in the second half of 2021.

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2. NYSE:NTR (Nutrien)
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cliew