Winners from a lower dollar

Look at companies that get their revenue from the US and Europe, advises Roger Montgomery

IT'S EASY TO THINK THAT A LOWER Australian dollar is bad for one's financial health. Because so few of us actually define ourselves by what we do, few of us define ourselves as investors. So it's reasonable to conclude that when overseas holidays and goods become more expensive, we are worse off.

A falling Australian dollar, however, isn't all bad. There are some positives and a number of ways to take advantage of a hypothetical view that further falls in the currency are likely.

One option to counter the expected rising costs of overseas travel and purchases is to simply travel locally and buy locally produced goods. If, however, your horizons and hopes are broader, then hedging becomes an option.

One way of hedging involves simply opening a term deposit with your bank in a foreign currency. If you haven't already opened a term deposit in US or Singapore dollars, as I did back when the local currency was at $US1.01, then it may not be too late. But be sure to speak to your adviser because the interest earned is lousy and you can make a capital loss in local purchasing power terms if the Australian dollar appreciates.

Importantly, what is lost in interest might be more than offset by any further declines in the Australian dollar. And that's not the only positive that arises if the currency were to decline further. Quite a number of companies are well positioned to take advantage of a weaker currency.

Before we examine some of those opportunities it may be worth putting the current level of the Australian dollar in perspective.

In 1983, one of the first acts of the Hawke government was to float the Australian dollar. That set the currency on a declining path for almost 20 years. From near "parity" with the US dollar at the time of its floating, the Australian dollar declined steadily until 2001, when it reached less than US50¢. There were many short-term factors influencing the currency over those 20 years but higher relative inflation in Australia played a large role in the fall. Since 2001, when China joined the World Trade Organisation, the Australian dollar has appreciated in line with a mining boom, itself the result of increasing demand for raw materials from an industrialising China.

With raw material demand from China growing less robustly for the foreseeable future, one should not be surprised to see the Australian dollar declining. For those who believe in the theory of purchasing power parity – and that currencies have a fair value – some analysts believe the Australian dollar could head to US66¢.

If you agree with this view – and keep in mind both Treasury and the Reserve Bank want a lower currency – then it pays to know which companies will benefit and which will be the losers.

Under a hypothetical scenario, the winners will be companies with exposure to the US and Europe. As they earn revenue overseas, a weaker Australian dollar means more of them in your hands when the foreign-earned revenue is repatriated.

Companies with a large proportion of their revenue derived from the US include Sirtex (about 80%), ResMed (55%), Aristocrat Leisure (50%), Computershare (50%), Cochlear (40%), CSL (38%), Breville Group (35%) and smaller companies with wonderful growth opportunities in the US such as Flight Centre and Infomedia.

Companies with a large proportion of revenue earned in Europe include Henderson Group (about 90%), BT Investment Management (50%), Cochlear (40%) and Sirtex (23%).

Those likely to suffer from a lower Australian dollar include retailers that must import goods from overseas and companies with revenues majority-earned in Australian dollars but with input costs denominated in US dollars – such as airlines and companies with a significant amount of unhedged borrowings in US dollars.

It's worth taking a look at your portfolio and spending habits and thinking about what a lower Australian dollar might do for you. It may be better than you think.

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