



Investors: Hide out in Dollarama Inc. and Metro Inc. Before it's too Late

Description

On the surface, Canada's economic numbers aren't looking particularly good.

According to a recent report Canada is likely already in a recession, following up the tepid first quarter with more of the same economic numbers. We'll officially find out in September when the real numbers come out. Canada is also suffering from low energy prices, high consumer debt levels, and increasingly unaffordable real estate, at least in many of the major cities. Put this all together, and it's obvious why the TSX Composite Index is down more than 1% so far in 2015.

If the economic picture gets worse, then stocks will likely take another dive lower. And remember, we're in the summer months, which means many active traders are on vacation. Once September rolls around and everyone is back digesting these numbers, things might really start to deteriorate.

What should investors do to prepare for a potential deeper downturn? The answer is simple—get rid of high-flyers and focus on defensive names. Two companies that should be on your radar are **Dollarama Inc.** ([TSX:DOL](#)) and **Metro Inc.** ([TSX:MRU](#)). Here's why.

Dollarama

There aren't many companies that will actually see business improve during a recession, but there's certainly the case to be made that Dollarama is one of them.

When times are tough, people are looking to save money on everything. And what better way to do so than going to the place where everything costs \$3 or less? I know whenever I go into the store I'm constantly impressed with the selection of items and the prices.

Even if the economy improves, the future still looks pretty bright for Dollarama. Thanks to its aggressive expansion plans, recent quarterly earnings surged nearly 30% compared with last year on a sales increase of 13%. Those great numbers weren't just driven by new stores opening either, as same-store sales were up almost 7% as well. It appears that Canadians just can't get enough cheap stuff.

There's great long-term potential in the name too. According to analyst reports, the company should be able to grow its store count from 972 currently to between 1200-1500 locations over the next decade or so. Not bad for a defensive stock.

Metro

When the economy hits the skids, folks still have to eat.

In fact, it's easy to make the argument that business at a grocery store often gets better during recessions, since people take money they'd normally spend at restaurants and spend it at the store.

While all of Canada's grocers are good operators, let's focus on Metro, the Ontario and Quebec-based chain with more than 800 locations operating under the Metro, Metro Plus, Super C, and Food Basics banners. Collectively, the stores did more than \$11.5 billion in sales in 2014.

Recent results have been good. The company recently came in with a same-store sales increase of more than 4%, which translated into approximately 20% growth in earnings per share. That's solid, especially for a grocery chain. Oh, and investors are getting that growth while only paying 18 times earnings for shares.

Plus, Metro's share price actually increased during the Great Recession, while everything in the market was falling apart. It's a proven performer during tough times.

And finally, there's speculation that the company will eventually join rival Loblaw and make a big splash in the pharmacy market, perhaps by acquiring **Jean Coutu Group**. The synergies make sense, and management has to be feeling a little left out after both main competitors made huge acquisitions over the last two years.

There's no avoiding a meltdown in your portfolio if the economy really goes downhill. But if you switch from volatile names to conservative companies like Dollarama and Metro, it's easy to minimize the damage—at least a little bit.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:MRU (Metro Inc.)

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/08

Date Created

2015/07/10

Author

nelsonpsmith

default watermark

default watermark