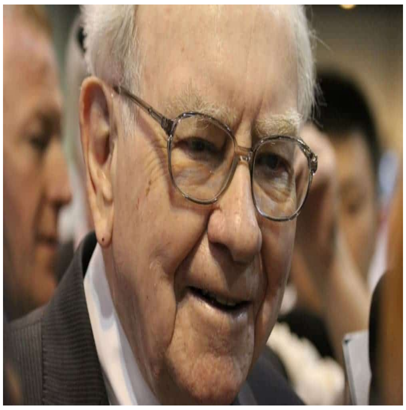

Buffet Would Approve of This 1 Stock

Description

You'd be hard-pressed to find a Canadian who has not set foot in a **Dollarama** (TSX:DOL). It's unequivocally the go-to place for Canadians to buy Bristol boards, party supplies and seasonal decorations.

The company was founded in 1992 with its first store opening in Matane, Quebec, and now has over 1,000 locations in Canada. In 2004, Bain Capital purchased a majority stake in Dollarama, which it sold in 2011 just as the company doubled the amount of its stores.

Dollarama's competitive advantage is due to its pricing and proximity. The company offers items ranging from $0.50 to several dollars — a steep discount compared to other retailers. Its seasonal items are also much cheaper than buying it at a specialty store.

The company's stores are conveniently located in high density areas as well as suburbs, which means that a Dollarama is easily accessible to almost every Canadian. The company is a good investment due to it being recession-proof and having solid net income.

Recession-proof industry

Although Dollarama sells both necessities and non-necessities, its pricing allows it to be insulated to economic downturns as the low price makes purchasing non-necessities justifiable.

Take toys for example. Even if a country is suffering through a recession doesn't mean that children no longer want toys!

For those of you who are parents, you'll know that it's is very hard to say no to a child every day for weeks on end. That's where Dollarama comes in. As the toys at Dollarama are affordable, parents will be able to get their children off their backs without breaking the bank.

Another example of this are the seasonal events such as Halloween and Christmas. Shopping for costumes during Halloween and decorations during Christmas can be very expensive.

Dollarama solves this issue by selling simple Halloween costumes and colourful Christmas decorations at a fraction of the price of other retailers.

Looks like Dollarama just saved Christmas!

Solid net income

As an investor, you're probably not interested in how Dollarama is saving Christmas and want to know if you're going to get a return on your investment. Rest assured, you will.

Dollarama's net income has increased every year for the past five fiscal years from $295 million in fiscal 2015 to $549 million in fiscal 2019 for a compounded annual growth rate of 13.23%.

Accumulated net income is $2.2 billion, which is impressive. The company also generated $533 million from operating activities with $288 million in current liabilities, which means that cash generated from its main line of business is enough to cover its obligations within the next 12 months.

Bottom line

Dollarama operates in an industry with tight margins. Despite this, its net income has increased every year for the past five fiscal years. The company also generates enough cash from operations to cover its current liabilities. That's a good sign, as it indicates that the company is self-sufficient when it comes to short-term debt.

The company is also recession-proof, as its pricing allows consumers to justify purchasing non-necessities. This is a significant advantage, as purchases of non-necessities usually diminish during recessions, but Dollarama's affordability nullifies this concern.

Dollarama is a solid investment.

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