Worried About a Recession? This Retail Stock's Got Your Back

Description

The dreaded "R" word keeps propping up in every financial conversation people have. There seems to be a general agreement that the economy is going to slow down sooner or later. If a recession actually does hit the economy, what are safe havens that investors can park their monies in?

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You can buy shares of a company that's the best in its sector like **The North West Company Inc** because people in rural North America still need to shop, or you can choose a utility company like **Emera** because North Americans and Caribbean residents still need their electricity.

You could also opt for Canada's biggest discount retailer, **Dollarama** (TSX:DOL). If there's a recession, people will go hunting for discounts and Dollarama, with its 18% market share in Canada is perfectly poised to reap the benefits.

The numbers for Dollarama

Dollarama's 1,250 store locations are spread across metropolitan areas, mid-sized cities and small towns in Canada, and offer a broad assortment of consumable products, general merchandise, and seasonal items both in-store and online.

The company also owns a 50.1% interest in Dollarcity, a growing Latin American value retailer with 192 stores in Colombia, El Salvador and Guatemala.

The second quarter numbers for Dollarama have been good. Sales increased by 9.0% to $946.4 million, compared to $868.5 million in the corresponding period last year. Net earnings increased to $143.2 million compared to $140.3 million, and the company approved a quarterly dividend of $0.044 per share.

Dollarama's balance sheet gives good comfort as well. It has a significant amount of debt at $1.87 billion, but its interest coverage ratio of 15.2 can tide over its payments.

The company has a market cap of over $14 billion, which means it can raise money easily if the need arises. Over the last three years, Dollarama's cash flows have equalled almost 60% of its earnings before interest and taxes.

The verdict

These numbers will hold, if not rise during a recession. People cut costs wherever they can during a downturn, and Dollarama has some of the lowest-priced products in Canada across various product lines.

None of its products are priced higher than $4. Its regular customers will definitely continue to shop here and it will get a booster shot of customers who want to save, well, a dollar here and a dollar there.

Shares of the discount retailer are already up over 40% this year (DOL currently trades at $44.5 at writing) and analysts expect it to rise further. Nine out of 15 analysts advise a "buy" on the stock, two advise a "strong buy" and four advise a hold. They have an average target of $51 with a low estimate of $45 and a high estimate of $60.

I've stated before that the company's forward price to earnings multiple is high at 21, especially after considering its five-year estimated annual earnings growth of 11.8% and a shockingly low dividend yield at 0.39%.

But if the economy does go south, customers will make a beeline outside Dollarama stores. It would do you well to hold some stock when that happens.

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Investors can look to buy this stock at significant price dips, as it remains a solid long-term buy.

CATEGORY

1. Investing

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1. TSX:DOL (Dollarama Inc.)

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