TFSA Investors: This Stock Could Be Your Secret Weapon in a Recession

Description

If you're bracing for a coming recession– as many investors are these days–you probably have certain types of investments in mind — specifically, utility stocks, short-term bonds, and bond funds.

These types of investments tend to hold their value well during recessions because they are very low risk. However, with that lower risk comes less upside in the good times. Although every portfolio needs to have some "safe" assets built into it, that's no reason to stay away from equities–even when a recession is looming.

There are many types of stocks positioned to perform well during and immediately after a recession and utilities aren't the only ones either. In this article, I'll be looking at a stock that, due to its low-price retail model, could thrive during a future downturn.

Dollarama

Dollarama Inc (TSX:DOL)(NYSE:DOL) is a Canadian dollar store that has huge market share in discount retail.

The company makes up about 18% of the Canadian discount retail market, while its closest competitor makes up just 2%. Note that this is looking at discount retail as a whole. If you narrow things down to just dollar stores, Dollarama's market share is much higher.

During the 2010s, Dollarama quickly swept the country, opening new stores at a rapid pace. As a result, its stock rose rapidly during that time–its total return (not counting dividends) was 1080% from January 2010 to October 30th, 2019.

More recently, the company's growth has slowed. Previously, DOL was a huge grower, routinely increasing its earnings by 20% or more year over year. In recent years, with the company having saturated the Canadian dollar store market, that hasn't been the case.

In its most recent quarter, year-over-year diluted EPS growth came in at just 7% year over year — a far cry from the numbers the company used to post, but there's reason to believe that a recession could bring this company back to life.

Why it could be a good bet in a recession

During recessions, people tend to cut down on spending, as layoffs and cutbacks in hours eat into their income.

For this reason, many discount retailers see a boost in sales during economic downturns. In 2007 and 2008–the peak years of the great recession–**Wal-Mart** saw 10% and 7% year-over-year revenue growth, respectively. Companies with extremely low prices tend to profit from budget cutting, so that fact shouldn't be surprising.

Dollarama could be a big beneficiary of this phenomenon in Canada.

The store has some of the lowest prices available anywhere in several product categories, ranging from grocery items to cutlery. In many product categories, it's even able to beat Wal-Mart's prices, and it certainly doesn't hurt that it has many locations in every major Canadian city.

While the company probably doesn't have as much room to open new stores these days, an increase in bargain hunting could lead to a major boost in same-store sales.

In fact, the company posted a 4.5% increase in that metric in its most recent quarter, which indicates that existing Dollarama stores are doing a lot more business than they once did.

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