TFSA Investors: Dollarama (TSX:DOL) Stock Gained Yesterday Amid the Market Crash

Description

The Canadian equity markets experienced one of the worst days on March 9, 2020. The **S&P TSX 60 Index ETF** fell 10.7% yesterday and several stocks lost billions in market value. The global markets have been impacted by the steep decline in oil prices, the coronavirus outbreak, and a sluggish macro-economic situation.

While the **TSX 60 Index** is down 15% in 2020, the **Dow Jones** and **S&P 500** are down over 17% this year. However, one Canadian stock has outperformed most equity markets. Yes, even this company is trading in the red this year, but the sell-off has been limited.

Shares of **Dollarama** (TSX:DOL) are down just 9.5% year to date. On March 9, 2020, while several Canadian stocks posted double-digit losses, this thrift store company managed to gain 1.7%.

Coronavirus impacts Dollarama stock

Investors are rightly concerned about a decline in consumer demand as the dreaded coronavirus continues to wreak havoc at the global level. The COVID-19 has reached most major economies and has infected over 114,000 people, resulting in over 4,000 deaths as of March 9, 2020.

The sell-off has hurt several companies with huge exposure to China, including tech giants such as **Apple, Broadcom,** and **Intel.** While Apple stock is trading 19% below record highs, Broadcom and Intel are down 25% and 26%, respectively.

Dollarama stock was down 12.5% in February, as the company sources a bulk of its products from China, where the coronavirus outbreak originated. This means a supply interruption would hurt the company's top line in the near future, and Dollarama would have to reduce the number of products it can display on store shelves.

What's going right for Dollarama?

Dollarama continues to grow its top line at a robust pace. In the first nine months of fiscal 2020, the company increased sales by 9.4% to $2.72 billion. Comparable store sales were up 5.2%, up from a growth of 2.7% in the prior-year period. EBITDA was up 3.9% while operating income and net earnings grew 3.3% and 7.1% respectively.

The company stated, "Comparable store sales growth for the third quarter of fiscal 2020 consisted of a 2.8% increase in average transaction size, driven in part by an increase in the number of units per basket, and a 2.4% increase in the number of transactions."

For fiscal 2020, Dollarama has forecast comparable sales growth between 4% and 4.5%. It continues to meet growth objectives with 21 new stores in Q3 as well as the upcoming completion of its distribution centre expansion project. In 2020, Dollarama expects to increase total store count by 60 to 70, which will help it meet financial guidance on key metrics.

What next for investors?

Dollarama stock is trading 28% slower since January 2018. Investors were concerned about the company's high valuation metrics, increasing competition, and escalating shipping costs. Now, Dollarama stock is trading at a forward price to earnings multiple of 20.3, which is still high given the delicate macro-economic situation.

However, Dollarama is a solid defensive stock, and the discount retailer was one of the few companies to outperform the market even during the financial crash of 2008. Amid an economic downturn, investors need to save every single penny, which increases the footfall at dollar stores.

While the coronavirus poses a huge risk, it remains a temporary headwind. If coronavirus cases increase drastically in Canada, foot traffic will take a massive hit, potentially dragging shares lower.

However, while investors can't time the market, Dollarama's recent decline seems a good opportunity to buy the stock right now.

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