Buy Canada’s Top Growth Stock to Profit From the Market Crash

Description

Recessionary fears and the fallout from the coronavirus have hit global financial markets hard. Leading stock indices, the **S&P 500** and **S&P/TSX Composite**, have lost 12% and 13%, respectively, since the start of 2020. The sharp decline has created an opportunity to acquire quality growth stocks at very attractive valuations. One that stands out is dollar store retailer **Dollarama** (TSX:DOL). It has lost almost 9% for the year to date, making now the time to buy.

Rising risks

Over the short term, there are considerable headwinds for Dollarama. Slower growth in China coupled with a sharp, coronavirus-driven downturn in manufacturing activity has the potential to weigh on Dollarama’s ability to source inventory.

There are also substantial concerns that the fallout from the coronavirus will trigger another global economic crisis. To head off a financial crisis, the Bank of Canada recently shaved 0.5% off the headline interest rate as part of its stimulus package. The fear is that if a recession occurs it will further reduce consumer spending in an already challenging operating environment for retailers.

Nonetheless, dollar store retailers have proven to be relatively resilient compared to other forms of retailers. During economic slumps, budget-conscious consumers, as part of reining in spending, turn to cheaper alternatives, which are typically dollar stores.

They have also proven to be less vulnerable to the explosive growth of e-commerce and online retailing. This is because typically their profitability is tied to high-volume sales of low-margin items. That business model is generally uneconomic for online retailers, because of the costs associated with managing inventory, logistics, as well as shipping and thin margins.

Another risk is that Dollarama acquired a 50.1% interest in Latin American dollar store retailer Dollarcity. This gave the retailer considerable exposure to the rapidly growing region of Latin America, where Dollarcity has 104 sites in Colombia, 48 in El Salvador and 58 in Guatemala. That was touted as opening a new growth platform for Dollarama, but the region is particularly vulnerable to a global recession. This is because many regional economies, notably Colombia, are heavily dependent on the extraction and export of commodities to drive growth. Slower growth in China, which is the world's largest consumer of commodities, and a worldwide recession will cause energy as well as base metals prices to collapse. That will weigh heavily on economic growth in Latin America.

Solid outlook

Dollarama is, however, well positioned to weather the crisis which is unfolding. It has successfully built a large Canada-wide network of stores and has a strong brand. Even in 2019's challenging conditions, Dollarama grew same-store sales for the first nine months of the year by 5.2% year over year. For that period, operating income grew by 3.3%, while EBITDA shot up by a healthy 3.9%.

Dollarama's focus on Canada will assist in ensuring that earnings remain stable. The company announced that it would open 60-70 new stores during its fiscal 2020 year. Based upon Dollarama's third-quarter results, that appears attainable. A growing number of sites will bolster earnings, even if the economy deteriorates.

The opportunity

Risks abound for Dollarama, making it easy to understand why its stock has declined, but its core business remains sound. When considered along with Dollarama's store growth and exposure to Latin America, its long-term prospects are sound. The latest pullback presents an opportunity to acquire one of Canada's best growth stocks at an attractive price. While waiting for Dollarama's stock to rebound, you will be rewarded by its sustainable dividend yielding 0.43%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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