Market Crash Alert: Dollarama (TSX:DOL) Stock Is a Buy

Description

Dollarama Inc (TSX:DOL) stock has *crushed* the market over the long term. Over the past decade, shares have increased by more than 1,000% versus a measly 3% return for the **S&P/TSX Composite Index**. This stock rarely goes on sale, but the market crash is providing a limited-time opportunity to capitalize.

Dollarama's historical success has come from a differentiated business model that allows it to offer unique items at a price its competitors can't match. The key is sourcing directly from manufacturers.

Around half of Dollarama's merchandise is now purchased from the manufacturer itself. This eliminates middlemen, effectively cutting costs for both the company *and* the consumer.

Additionally, by working directly with the makers of products, Dollarama can secure exclusive deals and provide rapid feedback to improve quality or features. That's a line of communication that few competitors possess.

Dollarama stock has grown immensely over the years, but as we'll see, the true growth has just begun. The recent market crash allows you to buy into this growth at a sizeable discount.

Dollarama can actually benefit

During the financial crisis of 2008, we experienced a phenomenon called trend-to-thrift. This essentially describes how consumers shifted toward bargain stores and discounted retailers.

The evolution made sense. Millions of individuals and families were financially devastated from the market downturn and ensuing recession, but of course, people still need to eat. They still need clothes and many other life necessities. These consumers still purchased plenty, but they chose to patron discount retailers.

This market crash appears destined to follow the same path. The Covid-19 crisis has caused a massive spike in unemployment. Even if conditions normalize rapidly, consumers will be significantly more cautious throughout the year to come.

Another trend-to-thrift movement should occur *regardless* of when the current market crash ends. As evidenced by previous downturns, consumer confidence can take a long time to revert to normal levels. This bear market will be no different.

So, Dollarama could ultimately *benefit* from this market crash. That fact hasn't stopped shares from sliding alongside the rest of the market. In recent weeks, Dollarama stock has dropped 20%.

Dollarama looks like a great way to capitalize on the frugality of consumers, but it also has a secret growth opportunity that will persist long after the coronavirus crisis is over.

Market crash shopping

Dollarama stock now trades at 20 times trailing earnings — its cheapest valuation in years. And despite the market crash, profits should still *rise* this year.

The existing Dollarama business alone is trading at a bargain price, but its the future business that is most lucrative.

Last year, Dollarama acquired a majority control of Dollarcity, a discount retail chain that runs Dollarama's exact strategy. But rather rather than focusing on Canada, Dollarcity is launching stores in high-growth markets across Latin America.

These regions have very little competition. Dollarcity today is very much like the Dollarama of 10 years ago, just before the stock went on a huge run.

By 2029, the company wants to open more than 600 new Dollarcity stores. Note that Dollarama has just 1,200 stores in Canada, so Dollarcity will provide a huge growth tailwind.

In summary, Dollarama's business could ultimately benefit from the market crash. But the Dollarcity opportunity makes this stock a buy long after the coronavirus crisis passes.

Remember that this isn't the only buying opportunity following the market crash. There's never been a better time to find cheap stocks with exciting futures. Build your watch list today and be prepared to strike.

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