



Dollarama (TSX:DOL) Is a Must-Buy for the Post-Pandemic Period

Description

Dollarama ([TSX:DOL](#)) stock's troubles started well before the coronavirus (COVID-19) crisis. The company was a victim of its past success, as growth became hard to come by amid rising competitive pressures and a shortening growth runway in the Canadian discount retail market. As a result, the stock collapsed violently on two occasions.

I [called Dollamara's crash](#) well before the fact, citing numerous headwinds and management mistakes, including share repurchases at what I believed to be a time of severe overvaluation. It wasn't until recently that I decided to change my tune on Dollarama.

The stock now sports a much more reasonable valuation, a compelling growth outlet in the Latin American market with [Dollar City](#), and looks to be a great way to play defence as we fall into a global recession. In essence, the stock is cheaper with fewer risks on the table and should be seen as a glimmer of certainty in a market environment that couldn't be more uncertain.

Dollarama stock: A reasonable valuation

The coronavirus has sent the broader markets into a tailspin, and not even defensive retailer Dollarama was spared. The stock now sits 29% below its all-time highs and could be poised to outperform in a post-pandemic period, as consumers make a return to physical retailers, albeit with less money in their pockets.

Dollamara stock trades at 17.6 times next year's expected earnings, 3.2 times sales, and 16.8 times cash flow, all of which are considerably lower than the stock's five-year historical average multiples of 22.3, 4.4, and 26.3, respectively. Shares also trade at a mere 13.7 times EV/EBITDA, which is absurdly low for the calibre of defensive growth you're getting at the cusp of a recession.

Make no mistake. Dollarama still has plenty of growth left in the tank, and it should still be priced with as much such. Right now, the stock trades more like a value play and not like a defensive growth gem that could outperform in a post-pandemic period, where consumer spending will be weighted towards retailers that offer a good value proposition.

Dollarama stock: A great way to play defence

The post-pandemic period is going to be tough on the wallets of Canadians. Many of us will need to tighten the belt and try to make every dollar go as far as it can.

Few firms out there can pass as much savings back to consumers than Dollarama. They've got impeccable supply deals and can do well in a low-margin environment. While a low loonie could weigh on margins, Dollarama can resist price raises and still do well to prove to Canadians that their dollar can go *far* if they shop at the discount retailer.

While Dollarama still has a slate of longer-term issues to iron out, most notably rising competition in the discount retail scene, I think the company is worth betting on given the low price of admission to the stock and where we're at in the market cycle.

Foolish takeaway

Management is refraining from giving initial guidance for fiscal 2021, given the uncertainties relating to COVID-19. COVID-19 is likely to have a material impact in the coming quarter, as the company looks to meet the demand for bare necessities through this pandemic.

Still, I see Dollarama as more than liquid enough to ride out the interruption and come out roaring on the other side of the infection curve in a post-pandemic world.

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