Why Dollarama’s (TSX:DOL) Stock Price Beat the TSX Index by 94% in March

Description

The **Dollarama** (TSX:DOL) stock price outperformed the TSX in March, as the company navigated its way through the coronavirus crisis.

All eyes were on developments related to the coronavirus. Societies are attempting to lessen the human toll of this virus by taking measures that were unimaginable only a few months ago. As the realities of social distancing and isolation became increasingly clear, the economic fallout also become crystal clear.

For Dollarama, the fallout is not as severe as it is for many. Dollarama has essential business status, and, as such, the hit to the company’s financials has been manageable.

This was reflected in Dollarama’s stock price outperformance in March, when it beat the TSX by 94%. At the time of writing, Dollarama’s stock price fell 10% year to date. This also compares very favourably to the TSX Index’s year-to-date performance of a loss of 20%.

Dollarama’s stock price outperformed because its stores are “essential”

Dollarama has benefited immensely from its essential status. Traffic surged in late February and early March, as shoppers stocked up on everyday household items. It meant that Dollarama still has a business through the crisis. In and of itself, this is a lot to be thankful for.

Off of this surge, recent fourth-quarter results posted a 2% increase in same-store sales. This was way above expectations. This news was some well-received good news in a time when bad news has been the norm.

Dollarama’s stock price benefited from its defensive business

Dollarama provides shoppers with everyday household goods at low prices. This combination is of so much value, and this is especially true in times like today.

No matter how you look at it, most people have lost significant amounts of money over the last few months. Whether this happened due to loss of income or due to a loss in the value of savings, the result is clear. We all recognize that we have less today than we did yesterday. We would all be wise to tune up our frugality muscles. Dollarama presents us with an easy way to spend less for our needs.

Yes, the coronavirus will also have negative consequences for Dollarama’s business and stock price. Certain stores were closed and hours were reduced. Operating costs will rise, as Dollarama continues to respond to this crisis. Social distancing and isolating practices will put a damper on future traffic in the short to medium term.

Management is deferring certain new store openings and suspending its guidance and its share-buyback program. Furthermore, management has suspended Dollarama’s annual dividend increase program.

These are all healthy responses to the new environment. But this crisis will one day be history. Visibility will improve. Dollarama will still have its winning formula of low prices and its loyal customer base when this happens.

Foolish bottom line

Dollarama’s stock price has been a star performer in 2020. This has continued in March. The coronavirus disruptions are not over yet, so we can expect this outperformance to continue. With Dollarama stock, investors have the opportunity to be invested in a business that is open for business. This is a rare and valuable thing these days.

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