Buy This Top Canadian Retailer to Profit From the Market Crash

Description

The coronavirus pandemic and ensuing market crash has dealt a harsh blow to retailers. The measures taken to contain the virus have forced all but essential services to close. This caused many retailers, particularly those that sell consumer discretionary products, to suspend operations, layoff staff, and close stores.

The existing retail apocalypse, triggered by the rapid expansion of online retailing, makes bricks and mortar stores particularly vulnerable.

Contrary to this poor outlook, Canadian retailer **Dollarama** (TSX:DOL) will still perform. The market crash has caused the stock to lose 14% since the start of 2020, making now the time to buy.

Short-term risks

A coronavirus-induced recession would impact Dollarama through diminished sales volumes. China's manufacturing shutdown is also a threat to Dollarama's supply chain because most items it sells are manufactured in the Asian nation.

Dollarama is, however, uniquely positioned to emerge from the current crisis and deliver considerable value over the long term. Dollar stores are resistant to the online shopping onslaught. A combination of low margins and the large sales volumes required to be profitable make the market uneconomic for internet retailers. The popularity of discount retailers rises during recessions as consumers tighten their budgets and look for lower cost alternatives.

Importantly, the governments of Ontario and Quebec recognize Dollarama as an essential business. That will certainly help it to weather the pandemic and ensuing fallout.

These factors will help to shield Dollarama from the market crash and looming economic slowdown. That is important because some economists believe it will be worse than the 2008 Great Recession.

Robust fundamentals

Dollarama's solid balance sheet will further shield it from the difficult operating environment that exists for retailers. It finished 2019 with $50 million in cash and total debt of $1.9 billion on its balance sheet. That debt, which amounts to 1.8 times annual EBITDA, is manageable even in the current operating environment.

More importantly, by the end of March 2020, Dollarama had significantly boosted its liquidity. It announced that it had $490 million of cash on hand and a $135 million credit facility. That attests to Dollarama's substantial financial flexibility and its ability to emerge from the coronavirus pandemic and economic crisis in good shape.

The pandemic caused Dollarama to suspend its 2020 annual guidance because of the substantial uncertainty it has created. The economic fallout from the coronavirus pandemic makes it difficult to predict how Dollarama will perform in Canada as well as in Latin America.

Growth ahead

Dollarama will emerge from the crisis sparked by the coronavirus pandemic as a profitable business. It will continue to dominate the dollar store market in Canada. Its entry into Latin America, through the purchase of a 50.1% stake in Dollar City, provides Dollarama with another valuable growth lever.

As at the end of last month, 190 of Dollar City's 228 locations in Colombia, Guatemala, and El Salvador were operational. This further bodes well for Dollarama to keep generating cash flow at a difficult time for most businesses.

Foolish takeaway

After the market crash Dollarama is trading at around 18 times its forecast 2020 earnings. That ratio is low for a high-growth stock like Dollarama, indicating it is attractively valued.

The budget retailer has performed strongly over the last decade. Even after accounting for decline triggered by the market crash, a $10,000 investment in Dollarama 10 years ago would now be worth a whopping $108,695, if dividends are included. That equates to a massive 987% return, or an impressive compound annual growth rate (CAGR) of 27%.

While past returns are no guarantee of future performance, Dollarama will deliver considerable value over the long-term, making now the time to buy.

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1. Coronavirus
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