Why Dollarama (TSX:DOL) Stock Is Your Best Bet Right Now

Description

Dollarama Inc. (TSX:DOL) stock is a proven winner. Since 2009, shares have risen by 1,200%. By comparison, the **S&P/TSX Composite Index**, rose by just 30%.

If you're willing to think long term, now could be a fantastic time to scoop up shares. The coronavirus pandemic has created a limit-time buying opportunity.

To be sure, the future is still unclear. But if you're willing to think in terms of years rather than months, you can capitalize on an emerging growth trend by investing in Dollarama.

This stock is ready

Following the 2008 financial crash, retail spending experienced a structural shift — a transition that eventually became known as the trend-to-thrift. That is, consumers across the board shifted their spending toward cheaper outlets. Discount retailers like **Kohl's Corporation** were seen as the beneficiaries.

If you followed the trend-to-thrift thesis, you would have identified Dollarama as an ideal growth candidate. As the largest discount retailer in Canada, it was poised to profit from higher demand for cheaper goods. In 2009, the stock was valued at $3. A decade later, the price surged to $50.

Here's the thing: the trend-to-thrift these is about to happen *all over again*, but this time, the trajectory could be much stronger. Due to the coronavirus, millions of Canadians are out of work — and ongoing oil collapse could add even more pressure. Economists are warning that there will be a permanent reduction in economic potential. It will take years to return to baseline.

It's not hard to connect the dots here. Lower incomes will force consumers to rethink their spending habits. Even those that simply fear the economic uncertainty will likely shift to low-cost retailers. Dollarama has hundreds of locations from coast to coast, and as we'll see, their cost advantage is a *permanent* feature of their business model.

Buy Dollarama stock?

There is no better stock to play the renewed trend-to-thrift thesis than Dollarama, as the company was built specifically to take advantage of this phenomenon. Other retailers will look to slash prices, but long term, they can't compete with the company without revising their entire business strategy.

At its founding, Dollarama pioneered a direct sourcing approach. Instead of stocking its inventory through third-parties, the company went straight to manufacturers, giving it access to exclusive products and direct communication for feedback and requests.

Most important, this strategy allowed the company to source products without the usual middleman fees, giving Dollarama the chance to split the cost savings with consumers, raising profits while undercutting the competition. Today, roughly half the company's products are sourced directly from the manufacturer.

At a time when foreign factories are ceasing production due to the virus, Dollarama has more influence on what gets produced and when. But the biggest advantage is long term.

Consumers will be moving to discount retailers in greater numbers than ever before. As demand explodes, Dollarama's operating strategy ensures that its prices remain the lowest.

Despite the promising decade ahead, DOL stock now trades at 2017 levels. While the stock isn't particularly cheap at 24 times earnings, it's a fair price for a business that can actually *grow* earnings in the year ahead.

This looks like an ideal wager for long-term investors, and if shares dip during another bear market, prepare to bet big.

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