Buy Dollarama (TSX:DOL) Stock Now Before it Takes Off

Description

Dollarama (TSX:DOL) stock has mostly recovered from the coronavirus market crash that started February 20. As one of Canada's best defensive growth stocks to prepare for the coming recession, the stock ought to be trading at a meaningful premium to most other growth stocks, but at today's levels, the stock looks pretty undervalued considering its recession resilience and promising long-term growth profile.

A great bet for the "trend-to-thrift" shift

Fellow Fool contributor Ryan Vanzo thinks that Dollarama stock is your best bet in today's market, touting the stock as a terrific way to play the "trend-to-thrift" shift that tends to kick in after severe economic downturns.

"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." said Vanzo. "Here's the thing: the trend-to-thrift 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."

I think Vanzo is right on the money when it comes to Dollarama. Given the unprecedented rise in unemployment as a result of the coronavirus crisis, many Canadians are going to need every dollar to go that much further. And with one of the best value propositions in Canada, Dollarama is going to step in and fulfill the increased demand for discounted bare necessities.

The tune has changed on Dollarama stock

In many prior pieces, I've slammed Dollarama for being a ridiculously expensive stock that was quickly becoming a victim of its own past success. Back before Dollarama stock's first vicious correction, when the bull market was roaring loud in 2018, I'd urged investors to ditch the stock, as meagre growth prospects didn't warrant the then high price of admission.

The stock lost around half of its value from peak to trough, as investors reset their sky-high expectations on the stock. Clearly, nobody was willing to pay over 30 times trailing earnings for a stock that was at risk of transforming from a growth darling into a stalwart in the midst of one of the strongest economies in recent memory. Indeed, the income effect probably contributed to slowing same-store sales comps.

With the economy poised to enter a severe recession (or even a depression), Dollarama is in a spot to experience off-the-charts comps. Once the pandemic passes and social-distancing measures ease, Dollarama will be back to regular hours, and Canadian consumers will likely be flocking to its stores in record numbers.

At the time of writing, Dollarama trades at 19.1 times next year's expected earnings and just 3.5 times sales, both of which are lower than the stock's five-year historical average multiples of 22.4 and 4.4, respectively. I don't think the stock is priced appropriately for the coming sales surge and believe that the stock could be on its way towards $60 by year-end.

Foolish takeaway on Dollarama stock

Sure, Dollarama still has some longer-term growth challenges, as it looks to expand into new markets, but given where we're at in the market cycle, I'd still say the stock is far too cheap given the profound intermediate-term tailwinds that could help the discount retailer blow away the numbers.

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