Forget Amazon (NASDAQ:AMZN): Buy This Retail Stock Instead!

Description

The coronavirus pandemic has hurt the retail sector as the lockdowns forced most retailers to shut down.

Statistics Canada has recently released a report showing record-breaking drops in billions of dollars in industry-wide sales during the early days of the coronavirus crisis.

Despite the surge in panic purchases, the shutdown of non-core businesses squeezed retail sales. Indeed, Canadian retail sales fell 10% to about $47 billion in March from $51 billion in February – the largest monthly decline ever registered.

Unsurprisingly, sales fell further through April, the first full month of economic shutdown in Canada. A preliminary estimate from Statistics Canada predicts a 15.6% drop in sales in April compared to March.

Amazon isn't the only retailer to profit from the pandemic

While most retailers are struggling, a few have actually benefited from the pandemic.

Amazon sales surged when consumers switched to online shopping. But Amazon isn't the only retailer to profit from the crisis.

Dollarama (TSX:DOL) is one of those few retailers that have seen their sales rise during the pandemic.

While most retailers had to close during the pandemic, Dollarama's stores with a street access (75% of Dollarama's stores) remained open as they were declared essential businesses.

Dollarama is a company that does very well during tough times. The dollar store chain business model works well in all kinds of economic scenarios but works even better during a recession.

High unemployment means that consumers have less money to spend, creating the ideal environment for increasing traffic in dollar stores.

Consumers want to get the most out of every dollar as uncertainty persists around the pandemic and the economy. They have cut back on discretionary spending, but continue to buy food and essential household items.

As Dollarama sells essential products and food at low prices, it’s not surprising that customers are shopping at its stores.

In addition to low prices, consumers may prefer Dollarama to big stores such as **Walmart** because they are smaller, making it easier to avoid large crowds.

Dollarama is a good long-term buy

Dollarama said sales have increased in the first weeks of the current quarter. But this was followed by a drop in traffic due to stay-at-home orders. However, this lower traffic is a temporary situation. The dollar store chain business will resume as lockdowns are lifted.

But the end of lockdowns isn’t good news for Amazon. The online giant could see its sales fall as fewer people shop online and go back to stores. On the other hand, Dollarama’s sales and traffic should increase as its stores located in shopping centres reopen. The company should continue to do well as people are more budget-conscious.

Dollarama’s stock fell along with the market at the start of the pandemic, but has soared about 35% since it hit bottom on March 23. Shares are up about 10% year to date.

While Dollarama P/E seems high at 27.6, it’s still lower than its five-year average P/E (29.5). Dollarama is also much cheaper than Amazon, which is trading at an insanely high P/E of 118.

Dollarama looks like a better long-term buy than Amazon.

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