The Most Important Takeaways From Dollarama's (TSX:DOL) Stock Conference Call

Description

As the pandemic took the world by surprise, the stock markets suffered the fastest correction in market history. In a span of only a couple of weeks, the S&P/TSX Composite Index lost more than 30%. On the flip side, consumer staple stocks such as **Dollarama** (TSX:DOL) weathered the storm better than most.

Yesterday, the company released strong first-quarter fiscal 2021 results in which it topped estimates on both the top and bottom lines. In response, the market sent the company's share price up by 2.52% in a mostly red day.

To gather further insights, let's take a look at the company's conference in which Dollarama leadership expanded on the performance of the last quarter and what to expect moving forward.

Volatile environment

One of the reasons why Dollarama's stock has held up well was because consumers were panic buying at the outset of the pandemic. Consumers were flocking to stores to stock up on food and everyday essentials. I'm sure we will all remember the great toilet paper-hoarding scandal of 2020.

> "We experienced a surge in traffic in early March as customers stocked up amid growing fears, surrounding the spread of COVID-19. We saw a significant uptick in sales of product categories like household and cleaning products, health and hygiene essentials and food products." — Neil Rossy, president and CEO

Dollarama’s first-quarter earnings are notable in that they include the month of April. As such, investors get a first glimpse as to the full impact of COVID-19 mitigation efforts. Despite remaining open, the initial surge was followed by a dramatic drop in traffic. As explained my Mr. Rossy, “This was followed by sharp decline in-store traffic by late March as a result of increasingly strict measures imposed across Canada. (In April) store traffic continued to be adversely impacted by physical distancing measures in place.”

On the bright side, it seems that by late April, the industry was stabilizing. However, the company may be faced with a new reality — fewer trips to the store and larger-than-normal purchases.

The pandemic may be changing consumer buying patterns, and companies that rely on significant traffic may need to adapt to these new habits.

Dollarama stock’s Q2 outlook

Dollarama did not reinstate guidance given the considerable uncertainty. However, it did provide some key information in relation to the outlook. First and foremost, only 32 Dollarama and five Dollarcity stores remain closed as of June 8, 2020.

With the majority of stores open, what do sales and volumes look like?

> “We are happy and pleased with the momentum we’re seeing in our business right now in the early part of the second quarter.” — Michael Ross, CFO

Dollarama is seeing strong demand for summer seasonal sales, which are picking up earlier than usual. This includes products related to gardening, barbecuing and home games.

Despite what looks like positive demand, Mr. Rossy did exercise caution in his attempt to temper expectations: “It’s a slow pickup where we’re just beginning to see that. But I think people are still — what we see is still caution. In other words, people not coming as often but buying more at a time. I think those are the — what we’re seeing right now.”

As mentioned previously, it is pattern worth monitoring, as foot traffic is a key metric for the industry. Slowing traffic could have a negative impact on Dollarama stock.

All this being said, it was a strong quarter. However, a theme is emerging — that of changing consumer habits. Whether or not these changes are temporary will be a story to watch over the next few quarters. It will have repercussions across the industry, and those that adapt to slowing in-store traffic will be long-term winners.

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