Dollarama (TSX:DOL) Just Plunged 8%: Should You Buy?

Description

Shares of Canadian discount retailer **Dollarama** (TSX:DOL) just pulled back around 8% since the beginning of June amid the stock market's broader relief rally from the coronavirus crash.

The defensive growth company recently delivered some solid first-quarter fiscal 2021 results that beat on the top and bottom line. Despite the firm's continued resilience in the face of the coronavirus recession, the stock has lost its way again and appears headed for another one of its late summer pullbacks.

As shares look to fall under pressure again, I'd urge investors to consider scooping up shares on the way down, as the well-run dollar-store chain is one of the few firms that will stand to grow out of this pandemic and outperform in a recession whose severity, I believe, is being heavily discounted by many in favour of the widely-subscribed-to "V"-shaped rebound.

Dollarama flexes muscles, impresses amid coronavirus-plagued quarter

Dollarama had no problem beating the consensus expectations on the top line for Q1/F21. Given how cramped the aisles are at the local Dollarama store, it was expected that store traffic would be drastically lower and that revenues would take a significant hit as costs associated with sanitization rose.

Clearly, analysts set the bar way too low for the discount retailer, as panic buyers helped keep Dollarama's numbers afloat.

Despite the modest pressures brought forth by COVID-19, Dollarama was able to continue generating ample amounts of free cash flow amid new store openings. Although the quarter, on the whole, was impressive, Dollarama CEO Neil Rossy noted consumer traffic trends had changed quite drastically over the quarter.

"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," said Rossy.

"This was followed by a 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."

Dollarama: Resilience at its finest

As the economy reopens across provinces, Dollarama's store traffic should normalize, and people will likely feel more comfortable making their regular trips as we inch closer to normalcy. As a result, Dollarama's revenues could stand to bounce back in a big way in the next quarter.

And if a second major resurgence hits Canada again in the latter part of the year — what then?

As an essential business, Dollarama has shown that it can hold its own and remain resilient through government-mandated shutdowns. Traffic trends will stand to change considerably again, basket sizes will pick up as the number of visits wanes. A brief slump will ensue followed by a quick progression toward normal consumer patterns.

Whether or not we're hit with another lockdown, Dollarama remains a must-buy after the latest 8% pullback despite any short-term pandemic-induced fluctuations in consumer behaviour. Why? This pandemic is going to leave a potentially severe recession behind, and in such a harsh environment, discount retailers like Dollarama will thrive as consumers look to take every dollar as far as it can go.

Dollarama's value proposition is unmatched, and if we're due for a prolonged recession, the resilient company will really have a chance to flex its muscles.

Foolish takeaway

As a proven "all-weather" investment, Dollarama is a prudent bet for those who have no desire to predict what's going to happen next with this pandemic.

The stock trades at 3.7 times sales and 15.8 times EV/EBITDA, both of which are modest for a firm built to survive and thrive in times of economic hardship.

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Date
2025/08/03
Date Created
2020/07/08
Author
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