



## Why Dollarama (TSX:DOL) Is a Good Buy in a Volatile Market

### Description

Driven by the quantitative easing measures announced by various central banks, the S&P/TSX Composite Index has rallied close to 40% from its March lows. However, the rally isn't backed by fundamentals with economic indicators, suggesting continued weakness.

Recently, [in an interview with Business Insider](#), Christophe Barraud, the chief economist of Market Securities, stated that the GDP of the United States wouldn't return to 2019 levels until 2022. Also, he expects the recovery in some of the European markets could take even more time. Further, he added that investors' enthusiasm could fizzle out soon when the reality catches up.

So, given the uncertainty, I would like to invest my money in the businesses that aren't likely to be significantly impacted by the economic uncertainties. I believe, **Dollarama** ([TSX:DOL](#)), the largest discount retailer in Canada, is one such company. It sells a broad range of consumable products, which include general merchandise and seasonal items.

### Dollarama is an excellent defensive bet

Dollarama has been the darling of the markets in the last decade, as its stock shot up nearly 1,100%. Meanwhile, this year, the company has returned just over 4%. But still, the company has outperformed the S&P/TSX Composite Index, which has lost close to 8% during the same period.

Through its compelling value proposition, Dollarama continues to attract customers, even during the pandemic. In the most recent quarter, the company reported revenue growth of 2%, despite the impact of COVID-19.

Dollarama's business was declared as essential, which allowed the company to operate the majority of its stores, even during the pandemic-infused lockdown. Although customers paid fewer visits to the stores, they purchased more quantities, which increased the company's average transaction size by 22.6%.

Meanwhile, the company's expenses directly related to COVID-19 came in at \$15 million, which put

pressure on its margin and EPS. However, I believe these expenses are short-lived and the company could bounce back in the second half of fiscal 2021.

## Competitive advantage

Dollarama sources over half of its products from abroad. Of these products, the majority come from China. The company's expertise in direct sourcing and its long-standing relationship with low-cost producers provides an edge over its peers.

The company also has an extensive presence in Canada with 1,301 stores at the end of the first quarter of fiscal 2021. Meanwhile, the company has plans to expand its business by increasing its store count to 1,700 by 2027.

Dollarama also owns a 50.1% stake in Dollarcity, a value retailer with operations in Latin America. Dollarcity currently operates 232 stores and has plans to increase its store count to 600 stores by 2029. So, Dollarama offers a strong growth potential over the next few years.

Apart from its retail stores, Dollarama has an online presence also. It targets only bulk orders, where customers can choose a full case from any of the approximately 1,000 products that are offered online.

## Dividends and valuation

On June 10, Dollarama's board had announced quarterly dividends of \$0.044 per share. Its dividend yield stands at 0.4%, which is on the lower side. Meanwhile, at the end of the previous quarter, the company's cash stood at \$522.6 million with \$184.5 million generating from its operations. So, the company is well equipped to pay its dividends in the future.

Despite offering strong growth potential, Dollarama trades at a discount. As of July 10, the company's forward P/E multiple stands at 24 compared to its average forward P/E multiple of 24.9 over the last five years.

## Bottom line

I believe the second half of 2020 to be highly volatile due to the high unemployment rate and rising COVID-19 cases. So, [Dollarama could be a good bet](#) in the given circumstance due to its compelling value offerings, stable earnings, and ability to perform well, even in economic downturns.

### CATEGORY

1. Coronavirus
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1. TSX:DOL (Dollarama Inc.)

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