



Buy Dollarama (TSX:DOL) Before This Coronavirus Recession Can Worsen

Description

Dollarama ([TSX:DOL](#)) stock has been picking up traction again, as investors continue piling into the resilient defensive growth stock amid the [pandemic](#). The Canadian discount retailer is not only a great spot to navigate through this crisis, but it's also in a spot to benefit from the coronavirus recession (or depression) that could linger on for many months, if not years, after this pandemic ends.

Indeed, Dollarama seems like the perfect stock, given its unique ability to weather pandemics and recessions. The valuation also isn't excessive at this juncture, making the stock a potentially timely bet for Canadians who seek to de-risk their portfolios at a time when most other investors may be letting their guards down.

Dollarama is a cheap defensive growth stock that could pay dividends if the coronavirus recession worsens

Yes, two major U.S. market indices broke through to reach new all-time highs this past week, but don't think for a moment that we're out of the woods yet. The economy, while improving, still looks like it's in a fragile state. And if the economy doesn't end up fully recovering in a V-shaped fashion like the **S&P 500** did (I don't think it will), it's only prudent to be ready for further volatility, as the stage could be set for a correction should the actual economic recovery not live up to the high hopes of many.

The Canadian economy has been healing nicely from the crisis, but there's a real chance that the recovery could slow down or reverse depending on the pandemic's next move. If future economic numbers pale in comparison to expectations, it'll be defensive stocks like Dollarama that could end up rallying in the face of a market-wide pullback.

The pocketbooks of many Canadians are in a bad spot right now. And with that, many will be looking to tighten the belt and take every dollar as far as it can go. When it comes to getting the most bang for your buck, it's tough to match the value proposition offered by the likes of a Dollarama.

Dollarama still has encouraging growth prospects left in the tank

The discount retailer may have suffered from slowed growth in recent years ([I called the initial crash in DOL shares just over two years ago](#)). Still, I don't think the company is transitioning from a growth darling into a stalwart given management has made the efforts to expand its horizon beyond the confines of Canada. The Latin American market could easily reinvigorate growth over the long term. But in the meantime, Dollarama, like most other firms, are going to need to concentrate on getting through this unprecedented crisis first.

Highly liquid and potentially undervalued in the face of a recession

Dollarama has ample liquidity (1.03 current ratio) and a robust operating cash flow stream that can hold up amid the pandemic and pick up traction coming out of the pandemic into a potentially severe recession.

Given the favourable environment for Dollarama, I find it absurd that the stock isn't trading at a hefty premium relative to that of its historical averages. At the time of writing, DOL stock trades at 4.16 times sales, 19.2 times cash flow, and 17.1 times EV/EBITDA, all of which are lower than the stock's five-year historical average multiples of 4.4, 25.7, and 19.7, respectively.

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