This Discounted Stock Is Poised to Soar as the Markets Continue Crashing Amid COVID-19

Description

The COVID-19 pandemic may take a turn for the worse over the coming months. Many health experts, including top doctor Theresa Tam, have been ringing the alarm bell over a potential second wave that could hit alongside the flu. Another top doctor, Anthony Fauci, recommends various geographies to hunker down to prevent the spread of the insidious coronavirus.

September's march into October in a position of technical weakness is not a good sign for the broader markets that could be headed much lower, driven by a combination of profit taking on overvalued tech stocks, uncertainties over the coming U.S. election, and fears that the second (or third) wave's economic onslaught could be profoundly worse than the first.

The new normal for this market is excessive amounts of volatility.

While I wouldn't hit the panic button (nobody made a dime from panicking in the face of a crisis), I would take a second look at your portfolio to ensure your pandemic-related risks are in check. Are you overweight airlines, restaurants, big banks, and energy stocks?

Given the **TSX Index** is overweight financials and energy, many Canadians may find that they're not ready for another round in the ring with Mr. Market going into year's end. While I wouldn't make drastic moves with one's portfolio, such as selling out of all banks at a sizeable loss, I would take a page out of Warren Buffett's playbook by positioning one's portfolio to do well, regardless of what the pandemic's next move is. That means swapping your COVID-hit plays (like financials and energy stocks) for COVID-resilient plays to get a well-balanced "barbell" portfolio.

Defensive growth at its finest

Dollarama (TSX:DOL) is one recession- and pandemic-resilient retailers that can help your portfolio weather a potential second storm. The Canadian dollar store giant is an essential retailer that will get a chance to spread its wings once the pandemic ends, and we're stuck in a recession. Dollar stores tend to outperform during times of economic hardship, as consumers look to tighten their belts and trim personal budgets.

If we're due for reopening rollbacks and further shutdowns, Dollarama will likely stay open, with reduced hours and increased spending on personal protective equipment (PPE). The company will probably see a repeat of what it saw earlier in the year during the peak of shutdowns: fewer visits with larger basket sizes, resulting in relatively robust free cash flows that will help Dollarama stay afloat, as the broader markets tread water in the face of another severe outbreak.

Dollarama recently clocked in its second-quarter fiscal 2021 results (Q2/F21) that continued to see the theme of fewer trips, larger basket sizes. Year-over-year gross margins were in the green for the first time in around two years. Although management is reluctant to provide fiscal 2021 guidance, I think the company will be poised to continue outperforming most other names during and after this horrific pandemic.

Foolish takeaway

Dollarama is in a spot to continue rolling with the punches. Once we're in a post-pandemic world, Dollarama will be right back to putting its foot on the gas, as it looks to reinvigorate its growth profile with Dollarcity.

Now, Dollarama isn't the cheapest stock in the world at nearly 20 times cash flow and 4.1 times revenues. Still, given its demonstrated resilience amid this crisis and the bleak macro environment that lies ahead, I'd say that shares are undervalued, even though its traditional valuation metrics may suggest mild overvaluation.

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