TFSA Investors: Where to Invest $6,000 Today

Description

Interest rates in Canada are likely to remain close to zero at least until 2023. So, expect as little as 1.1% returns on the money you save in the Tax-Free Savings Account (TFSA).

At the same time, investing in some of the top stocks via a TFSA could reap some significant benefits in the longer term. Also, capital gains and dividends generated within the TFSA will be tax-free throughout the holding period and even at the time of withdrawal. The TFSA contribution limit for 2020 is $6,000.

A top TSX stock for TFSA investors

Investors can consider putting money in the discount retailer **Dollarama** (TSX:DOL). The stock has returned 1,000% in the last 10 years, notably beating the **S&P/TSX Composite** and the **S&P 500**. Its consistent performance is quite a feat in a relatively slow-growing industry.

A $15 billion company, Dollarama operates more than 1,300 stores across Canada. Its widespread presence in the country is a big competitive advantage and drives growth. Notably, it has 2.5 times a greater number of stores than four of its pure-play competitors combined.

Its unique value proposition stands tall among peers. Importantly, most of its stores were open during the lockdowns, as they fall under the essential category. Thus, its financial performance was little affected by the pandemic.

For the first six months of 2020, Dollarama reported total revenues of $1.86 billion — an increase of 5% year over year. Its net income fell 7% to $228.6 million in the same period. DOL stock has soared more than 30% since its pandemic lows in March.

Dollarama: Competitive advantage

Dollarama is planning to increase its store count to 1,700 by 2027, which will likely drive its earnings growth for the long term. Notably, Canada is still an underpenetrated market in terms of retail stores as compared to the south of the border.

Dollarama acquired a 50% equity interest in a Latin American value retailer Dollarcity last year. It has 232 stores and aims to grow it to 600 by 2029. This expansion in Latin America will provide a vital geographical diversification to the company.

Investors should note that Dollarama sources a large portion of its products from China. Geopolitical tensions and exchange rate volatility could be some of the risk factors for Dollarama. Additionally, the prolonged pandemic could hurt its pace of rolling out new stores, which might stall growth.

Dollarama stock has fallen almost 12% in the last couple of weeks. The recent broad market weakness is an attractive opportunity for long-term investors. It is currently trading 26 times its next 12-month earnings estimates.

Valuation

Notably, Dollarama stock looks expensive from the valuation perspective compared to peers, despite the current weakness. However, that still is in line with its five-year historical average valuation. Dollarama stock generally trades at a premium due to its tendency to remain resilient in volatile times and its historical outperformance.

Dollarama is an attractive investment for TFSA investors, mainly due to its stable cash flows, reliable dividends, and reasonable valuation. However, it is not prudent to invest in a single stock, and one should look to diversify.

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