Dollarama (TSX:DOL) Stock Has Been a Champion in 2020

Description

Dollarama (TSX:DOL) stock has been a champion in 2020. Rising 11.74% compared to a 0.74% *decline* for the TSX, the stock has solidly beaten the market. As a discount retail company, it's uniquely suited to survive recessions — like the one we've witnessed this year. The question is, does the stock have further to climb or is this story already over?

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Historical results

Dollarama's 2020 gains came after a rocky start to the year. In late January, the stock began a rapid descent that saw it fall as much as 25%. In March, however, the stock began rebounding quickly. So far, it has risen 40% from its March low. So, the stock fell less than average during the COVID-19 market crash and recovered more quickly than other TSX stocks. The end result has been solid outperformance year to date.

Why DOL has beaten the market

There are two main reasons why Dollarama stock has beaten the market in 2020:

- **Its industry:** This explains why DOL fell less than average in the COVID-19 market crash. Discount retailers predictably perform better than other businesses in recessions. The reason is that when facing unemployment, consumers gravitate toward their lower-priced items.
- **Earnings:** In the first and second quarters of fiscal 2021, DOL delivered solid profitability and sales metrics across the board. This contributed to the stock's rise after the initial decline in January-March.

The combination of expected strength and strong actual earnings helped DOL beat the market in 2020. In the next section, I'll explore those earnings in more detail.

Recent earnings

Dollarama delivered solid results in the first and second quarters of fiscal 2021.

In the first quarter, sales grew by 2%, same store sales by 0.7%, and the gross margin was essentially unchanged. Net income declined by 15% because of higher COVID-19-related costs. The decline in net income may look like bad news, but a modest earnings decline was a solid result for that period. In the same period, airlines and hotels ran losses while bank earnings declined about 60% on average.

The second quarter was an unambiguously a good one. In it, sales increased 7%, same-store sales increased 5.4%, and net earnings increased 2.2%. This time around, the company had all of its stores opened, and it benefitted from that fact. Today, with a second wave of COVID underway, it's likely that DOL will have to close down some of its locations again. This might result in lower earnings in Q3 compared to Q2.

Foolish takeaway

As we've seen this year, Dollarama is a resilient company that can easily survive a crisis. But now, the company is facing a challenge. With the second wave of COVID-19, the company will once again be forced to close some of its locations. The question is whether the stock market will send the stock lower because of that or trust in the eventual recovery. For that, we'll need to wait until Q3. Until then, we can take comfort in the fact that DOL is well equipped to survive in the midst of a second lockdown.

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