Dollarama: 1 of the Few Canadian Stocks to Buy That Can Benefit From Inflation

Description

This morning we got new inflation data in for the United States. Although it's not precisely Canadian numbers, our economies always mirror each other closely, and so far this year, that's been the case when it comes to watching inflation. Therefore, after another massive jump in prices, investors may be looking to find Canadian stocks to buy in this environment.

And while there are a few companies that can ultimately benefit from inflation, **Dollarama** (TSX:DOL) is easily one of the best Canadian stocks to buy now.

When consumer incomes are impacted, discount retailers can benefit

One of the main reasons Dollarama has so much potential in this environment and is one of the best Canadian stocks to buy now is that it has the potential to grow its market share. Any time consumers' incomes are being affected, whether that's from surging inflation or a recession, discount retailers such as Dollarama naturally see an increase in volume.

Consumers look for any way possible to offset rising costs, especially when they are consistently outpacing wage growth. And one of the easiest ways to do that is to stop buying essentials at big-box stores and instead look for discount retailers like Dollarama.

And while Dollarama may not be the only discount retailer, it has a massive market share, is an incredibly well-known brand, and has been improving its merchandising for years.

Therefore, the longer that inflation surges, the more sales growth Dollarama should see. Whether that can all flow to the bottom line, though, is another question.

Dollarama is one of the best Canadian stocks to buy now, but it still has risks

Dollarama is certainly one of the few stocks that can see a benefit from inflation as its sales grow. For most other businesses, especially ones selling discretionary goods or services, sales will likely slow as essentials take up more of consumers' budgets.

However, while Dollarama can see a benefit in its sales from inflation, there are still risks that rising costs, as well as other supply chain issues, could impact its costs and, therefore, its margins.

In reality, due to Dollarama's incredibly merchandising, its recent introduction of the $5 price level, and the fact it can grow its sales significantly should be able to help the stock offset these rising costs. And when it reported earnings for its first quarter of fiscal 2023 last month, that's exactly what we saw.

However, there is certainly still the risk that although its sales do increase, its earnings could temporarily decline if its margins are significantly impacted.

Bottom line

Despite these minor risks, Dollarama continues to be one of the best Canadian stocks to buy now. Because, as we've seen over the past decade, not only can the stock benefit in the short term, but it can use this momentum and increase in popularity to continue driving sales for years to come.

Right now, the stock is trading at 27.5 times its forward earnings, only slightly above its long-term average. So, when you consider that it's one of the only companies with the potential to perform well in this environment, then it's certainly one of the best Canadian stocks to buy now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. danieldacosta
2. kduncombe

Category

1. Investing

Date
2025/08/25
Date Created
2022/07/13
Author
danieldacosta