Market Slump Got You Down? Buy Dollarama Stock Now

Description

The stock market, and especially growth stocks, see notable weakness in the inflationary environment. However, stocks like **Dollarama** (TSX:DOL) thrive in these situations, as their value proposition increases during rising inflation. And that's what happened with the Dollarama stock. Despite massive inflationary pressures, Dollarama is doing well. While the Toronto Stock Exchange (TSX) has fallen nearly 14% so far, Dollarama's stock has soared more than 20% in 2022. It is currently trading near all-time highs and shows no signs of slowing down.

Dollarama is the retailer with the best value

Dollarama is one of Canada’s best success stories. Today, as the retailer offering the best relative value, this company is well positioned. DOL operates 1,431 stores in Canada, which is far more than its peers. Its extensive store network, unique value proposition and stable revenue profile make it an attractive bet in these uncertain markets.

Dollarama is considered a safe-haven name because it has less correlation between earnings and economic cycles. As a result, market participants change names when markets become volatile.

Inflation has been the main reality markets have faced all year. It is therefore not surprising that Dollarama feels this pressure with others. Management sees wage pressure. They also note supply chain issues and rising transportation costs.

Dollarama will likely come under some pressure on its margins and earnings growth in the coming quarters due to rising costs. However, it will likely do well against consumer stocks of peers. Additionally, customers are increasingly turning to discount stores like Dollarama in inflationary scenarios. So, higher foot traffic and increased demand could help its revenue.

In response to inflation, Dollarama managed to raise its prices by introducing a new price of $5. We can only expect this inflation to get worse over time. As all the pundits now say, this inflation situation will not be short-lived.

Retailers have no other choice than to pass these cost increases on to the consumer, at least in part. But, as Dollarama says, they move last on price. In short, it will continue to offer the best relative value.

In the last quarter, Dollarama’s sales increased by 12.4%. EBITDA increased by 21% and EPS by 32%. In addition, Dollarama experienced a double-digit increase in-store traffic and a comparable sales growth rate of 7.3%. These are all very bullish results that Dollarama shares rallied on. Those are really solid numbers, especially given the inflationary pressures. Simply put, these results prove that Dollarama is an attractive option for consumers.

Inflation should attract more customers to the discount store

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

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

Therefore, the longer the inflation spike, the more Dollarama is expected to experience sales growth. Whether any of this will trickle down to the bottom line, however, is another question.

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

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