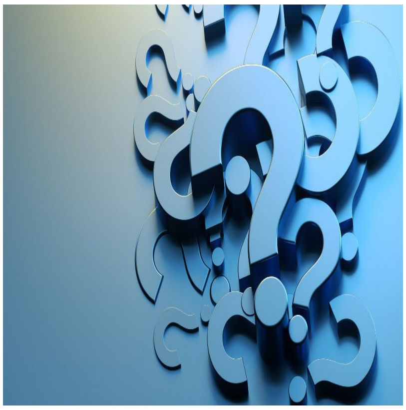

Is Dollarama (TSX:DOL) a Safe Haven for the Recession?

Description

Dollarama (TSX:DOL), the discount retailer, could be in a favourable position if the national economy dips. Here's why this relatively safe growth asset should be on your radar in 2022.

Recession risks

Economists across the world expect a recession. In fact, economic growth has already slowed down in the U.S., which is Canada's largest trading partner. In July, **RBC** put the odds of a recession in Canada at 90%. Other forecasts range from 25% to 50%.

Put simply, no one knows if a recession is imminent or how severe the next downturn could be. The best thing for investors to do is seek out assets that are likely to be resilient to an economic downturn.

This resilience usually comes from a combination of pricing power, market dominance, competitive advantage, and robust demand. Dollarama doesn't have all factors, but it does have a competitive advantage and robust demand.

Dollarama's advantages

Dollarama's low costs are a competitive advantage. It is Canada's largest discount retailer. That means consumers turn to any of its 1,421 outlets for bargains when they cut back on spending.

This year, more households have tightened their purse strings, as inflationary pressures have accumulated. Everything from fuel to food and rent is much more expensive, while companies have started layoffs and reduced bonuses. Coupled with a lack of government stimulus, consumers are facing a stressful period.

Dollarama's low sticker prices are attractive in this environment. Much of its merchandise is priced around $1 or $2. Essential items such as gardening tools, party decorations, and cleaning supplies at these prices are highly attractive. Recently, the company expanded its product mix to include items priced up to $5. This strategic move should have a noticeable impact on same-store sales and total revenue in 2022.

Valuation

Dollarama stock is up 30% year to date. Compare that to the **S&P/TSX Composite Index's** -5.75% over the same period. This outperformance could continue, as Dollarama adds more sales and retains margins in the second half of the year.

For now, the stock trades at just 35 times earnings per share. In its most recent quarter, the company's sales grew 12.4% while net income soared by 28%. Based on these figures, Dollarama stock seems to be trading at a forward price-to-earnings-growth ratio of 0.90.

Put simply, this growth stock is undervalued at the current market price.

Bottom line

Canadians are already in economic distress. Inflation has reduced spending power. Meanwhile, economists at RBC believe a recession is highly likely. That could make matter worse.

In this environment, consumers are likely to pivot to discount retailers that can offer low-cost alternatives to essential needs. Dollarama is perfectly positioned for such a pivot. Meanwhile, the stock is undervalued. Investors looking for a safe haven should keep an eye on this stock.

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1. Investing

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