Dollarama Inc. Is Still a Great Investment

Description

Dollarama Inc. (TSX:DOL) is a dollar-store operator that carries a broad range of goods across multiple categories, all for $3 or less. Here are a few reasons why investors should consider adding Dollarama to their portfolio.

Dollar stores show growth during periods of economic slowness

When the economy cools down, consumers seek out savings in their spending. Dollarama is very high up on the list of stores that consumers flock to, and as a result the company realizes greater sales and higher margins during periods of slow economic growth, outperforming the market.

In fact, some of the largest growth spurts for dollar-store franchises have come during recessions, and this holds true for Dollarama. The company is planning to increase the number of locations to 1,000 within the next year and further expand to 1,200 locations by the end of the decade.

With 17 new stores that opened during the most recent quarter, Dollarama now has 989 locations across Canada, within striking distance of the 1,000-store goal.

Dollarama's expansion is on track, albeit slow

When the company started out, it carried products that only cost $1. Higher price points were introduced in 2009 and then again in 2012, allowing the company to offer a greater variety of products of higher quality.

Further price increases could very well be in the future as the company looks to add value and more options to lure consumers in.

The company recently announced that the possibility of a higher price point of $4 may be necessary within the next year as the tumbling loonie has forced companies to eat up margins in foreign exchange conversions. Since Dollarama buys products in U.S. dollars, this means that the company has been forced to absorb that cost.

Another potential wrinkle that will slow down growth is that there is less availability of products available in the 25-35 cent range that the company can turn around and sell for upwards of $1. China, the primary source of the merchandise at these price levels, is no longer focusing on that price point.

Results that speak

Dollarama currently trades at just under $89, off the 52-week high of $93.90. The stock is up by 17% in the past three months and up by nearly 50% year-to-date. Looking at the long term, the stock is up by an impressive 508% in the past five years.

Analysts are well aware of the stock's potential and have issued price targets upwards of $94 with a recommendation of buy on the stock.

During the most recent quarter, Dollarama reported sales growth of 14.1% and a near 50% increase in earnings to $0.74 per share.

Dollarama is doing everything that the company can to keep prices down, but the pressure of the falling loonie will eventually spill over to the consumer in the form of higher prices or smaller quantities being sold at lower price points. That being said, the company is still a great investment for investors looking to diversify their portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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