A Weak Loonie Is Good and Bad for Dollarama Inc.

Description

Dollarama Inc. (TSX:DOL) still holds the title of being the largest owner and operator of dollar stores in Canada, and for good reason, too. The company has over 1,000 stores scattered across the country and has plans to expand to beyond 1,200 locations within the next five years.

If you are like me, Dollarama is the type of store you go into for one item but walk out with a full basket of items. Having so many products across such a wide variety of areas for low prices resonates with consumers. Whether or not the company can maintain this model while the market is down and the economy and loonie are both in a weakened state is another matter.

What about the weak loonie?

All of those great odds and ends we pick up from our trip to our local Dollarama are, for the most part, imported from China. Most of the goods are purchased for 25 or 35 cents and then sold in stores for $1 and up.

With the loonie down considerably over the past year, finding and paying for products with that reduced spending power is becoming more and more difficult, leaving the company with few options. It could reduce the sizes of products to keep the price the same or introduce a new, higher price point that will allow Dollarama to purchase the products and still make a profit.

The company is considering both moves. A potential increase in prices has already been occurring for the past year or so. Over the past year the number of items for sale in Dollarama stores that were available at the $1 price point have gone from nearly 75% of inventory to less than 50%. In the same period, new price points have been slowly introduced.

In the end, consumers may be left with sticker shock as the price of an item creeps closer to $5 after tax. With the loonie hovering at US$0.70 or lower, a new $4 price point that Dollarama has been flirting with for some time may finally get added into the mix, likely before the end of the year.

Dollarama still has huge, untapped potential

Despite the increasing price points and reduced spending power, there is still a massive demand for dollar stores in Canada.

There’s no argument over the fact that dollar stores are great businesses during down markets as consumers look for more frugal alternatives to reduce spending. The current economic weakness could be a boom for Dollarama’s business. In the latest quarter the company noted that there was no drop in sales, even in Alberta, which has been hit hardest from the commodity drop off.

Dollarama currently trades just below $74. Year-to-date, the stock is down by 7.5%, much like most of the market.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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