



## Dollarama Inc.: This Forever Stock Still Has Plenty of Growth Left

### Description

Often, a huge mistake investors make is assuming a stock that has gone up 200%, 400%, or even more has no shot of continuing that torrid growth pace.

Investors can't just look at the past; they have to look at the future too. We have to determine if a company still has potential to expand domestically or to wring even greater efficiencies from current operations. Then we must examine international opportunities as well as expansion into complementary businesses. Only after examining all of these factors can we make a decision about a company's long-term growth prospects.

Investors in **Dollarama Inc.** ([TSX:DOL](#)) can be forgiven for assuming the company is approaching its peak in Canada. The stock is up more than 830% from its 2009 IPO price, not including dividends. The company recently opened its 1,000th store as well, making it a true Canadian retail powerhouse. There aren't many chains in Canada that have cracked 1,000 different locations.

But Dollarama isn't even close to plateauing. Here's why.

### Same-store growth

In an era where many of Canada's leading retailers are struggling to just maintain market share, never mind grow it, Dollarama continues to grow both the top and the bottom line.

In the company's most recent quarterly earnings announcement, it reported a 14.6% increase in sales compared with the same quarter last year with earnings per share increasing 31% to \$1.00 per share. Other comparables were up nicely, including gross margins, EBITDA, and operating income.

Growth isn't just coming from opening new stores. Same-store sales in the quarter shot up 7.9%, almost matching the 8.5% increase in the year prior. Management has done a nice job introducing new products at higher price points, even announcing a new upper limit of \$4.

Investors don't have to worry about the company saturating the market anytime soon either. According to analyst reports, the Canadian economy can handle some 1,000 additional dollar stores before

becoming as saturated as the United States. Sure, it'll continue to face competition from U.S. chains, but there's still plenty of expansion potential possible at home, never mind abroad.

### **International growth**

Many analysts don't even bother to mention the company's partnership with Dollar City, a chain of dollar stores located Central America. Dollar City has grown from approximately 15 locations in 2013 to 39 in El Salvador and Guatemala.

Dollarama has an option to buy Dollar City starting in February, 2019. In the meantime, it has been providing products and operational support to the fledgling chain. Granted, it's probably much more difficult to build a high-quality retailer in less developed markets, but that's offset by the greater potential these markets offer. Investors should like this international potential.

### **Other growth potential**

Once Dollarama stops focusing on opening new stores, I believe the company still has potential to create more earnings from its existing locations.

The first possibility is offering a Dollarama store-branded credit card. The company only takes cash or debit at its locations to keep costs down. Entering into a relationship with a major bank should allow it to negotiate a good rate. Besides, financial services have been an easy growth avenue for many of Canada's other leading retailers.

And, of course, there are dozens of different dollar store operators around the globe. Dollarama could easily turn its focus to acquisitions once it gets to the point where there isn't much growth in Canada. Additionally, it could pursue a strategy like **Canadian Tire's** and buy up small niche retailers.

Dollarama is an expensive stock—there's no doubt about that. But it still has plenty of long-term growth potential, both at home and abroad. Growth investors should focus more on the latter and less on the former.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:DOL (Dollarama Inc.)

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