Dollarama Inc. Is the Retail Stock for Your Portfolio

Description

Dollarama Inc. (TSX:DOL) is arguably one of the best retailers in Canada, offering investors growth prospects that could benefit almost any portfolio.

Here's a look at Dollarama and what the company can offer.

Dollarama's results

In the most recent quarter, Dollarama posted sales of $766.5 million, an increase of 14.6% over the same quarter last year. Comparable store sales also saw an increase of 7.9% over the same quarter last year. EBITDA increased by 25.5% to $189.9 million when compared with the same quarter last year.

The company also increased the quarterly dividend by 11.1% to $0.10 per share. At the current stock price, this gives the stock a yield of just 0.44%.

The stock currently trades at $91.52, off the 52-week high of $93.90. Year-to-date, the stock is up by a healthy 14.46%, and extending out to a full calendar year shows the stock up by nearly 33%. Longer term, the stock shows real value with the five-year price up by 473%.

Dollarama is primarily a growth stock

Dollarama has become an incredible growth story since going public less than 10 years ago. The stock has appreciated by over 800% in that time with no immediate reason to doubt that the growth should end anytime soon.

Dollarama's growth has been nothing short of impressive, but that growth extends beyond the stock price. The company now has over 1,000 locations scattered across the country with countless more planned before the market is anywhere near being saturated.

A difficult and ideal market for Dollarama

Dollar stores typically perform much better during periods of economic weakness as consumers seek out goods that are value-priced as a means of cutting costs. This helps Dollarama in a multitude of ways as consumers coming to the store to buy one or two items will quickly find that the company's unique offerings and price points cause them to leave with a full cart.

Those price points are also unique to Dollarama. Throughout the years, the company has introduced higher price points for goods, including the recent introduction of the $4 price point.

As the value of the loonie has dropped, the company has been faced with reduced buying power in foreign markets, such as China, where many of the goods that Dollarama sells are made. Earlier this year, the company noted that both a higher price point and a reduction in product bundling may be a likely solution to the drop in the value of the loonie.

Expanding into new areas and markets

Earlier this year, Dollarama announced that it will be conducting a pilot program launch of accepting credit cards for sales in a few locations. Currently, the company only accepts cash and debit cards.

In terms of new store opportunities, there is still a significant demand for more stores. Some experts note that a further 1,000 stores could be accommodated in the economy before reaching anywhere near the saturation that the market in the United States has.

Looking outside Canada, Dollarama has an agreement in place with American chain Dollar City, which has locations in both Guatemala and El Salvador. Under the current partnership, Dollarama provides operational support and products to the chain and will have the option to purchase the chain outright in February 2019.

While the company may appear to be an expensive stock, the results and prospects tell a completely different story. In my opinion, Dollarama is a great investment option for those investors looking at longer-term growth.

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1. Editor's Choice

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