



Why Dollarama Inc. Continues to Be a Great Investment

Description

When it comes to retail stocks in Canada, there are fewer companies that can attest to having better growth over the past few years than **Dollarama Inc.** ([TSX:DOL](#)).

Dollarama is the largest dollar store operator in the country, selling a variety of goods for under \$4. With over 1,000 locations scattered around the country, Dollarama has experienced incredible growth in a little under a decade since going public.

Here's a look at some of the reasons why Dollarama is such a great investment.

Dollarama can draw traffic, which leads to sales

There's something special about Dollarama stores that are envied by just about every other retailer. It is nearly impossible to go into a Dollarama location for one item and not leave with a cart full of goods. I've tried this on more than one occasion and was unsuccessful.

Part of the reason for that magnetism is that Dollarama has such a vast array of goods that are all reasonably priced. Even better is the fact that many of those reasonably priced items are bundled into multiples, which creates the illusion of even better value to consumers. That value proposition resonates with consumers, particularly in places where the economy is weak; shoppers gravitate towards places where better deals can be found.

The model is so simple, it's brilliant; it has translated into greater store traffic and increased sales for the retailer come earnings time.

Strong results continue from Dollarama

In the most recent quarter Dollarama reported an impressive 11.65% increase to sales, which came in at \$729 million. Comparable store sales grew by 5.7% over and above the 7.9% growth that was registered in the same quarter last year. Gross margins for quarter remained the same as they were last year at 38.4%.

Diluted earnings per common share came in at \$0.88, which was an impressive 18.9% increase over the \$0.74 per share noted in the same quarter last year. Operating income also saw double-digit increases with a 14.5% improvement over last year, representing 21.2% of sales at \$154.6 million.

Strong growth prospects in and out of Canada

Dollarama's incredible growth to +1,000 locations in a short amount of time is nothing short of impressive. Even more impressive is the fact that despite this level of growth, the market for dollar stores in Canada is nowhere near the saturation level of stores in the U.S., meaning that Dollarama still has plenty of avenues for growth within Canada.

Management has reiterated its commitment to continue to expand to new locations. The current forecast calls for up to 70 new locations to be opened in the current fiscal year.

Most investors may not even realize that Dollarama has an agreement in place with a chain of dollar stores in Central America called Dollar City. Under the terms of that agreement, Dollarama is providing business expertise and sourcing services to the chain. Dollarama even has the option to acquire the chain outright at the end of that agreement.

Dollarama has nowhere to go but up, at least for the time being. With continually improving results, a plan for growth, and an insatiable demand for its products, Dollarama remains, in my opinion, a great addition to any portfolio.

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1. Editor's Choice

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