Why Dollarama Inc. Is Still a Good Investment

Description

Dollarama Inc. (TSX:DOL) is the largest dollar-store operator in the country with over 1,000 locations scattered around the country. Dollarama has perennially outperformed during results time, leading many to label the company as the best retailer in the country and adding fuel an already roaring stock.

That being said, there's a camp of more conservative investors that think the meteoric rise of the stock is due to end; they claim the stock is overpriced at the moment.

While there is some truth to Dollarama trading a little on the high side, there's still plenty of upside to love about the stock, and that growth is set to continue at least for the time being.

Here's a look at why Dollarama is a great investment.

The Dollarama factor

One thing that most people don't realize about dollar stores is that they perform well in nearly every type of market condition, but they absolutely thrive during market downturns. When markets start to cool, consumers will often look to save money on their daily purchases, which, more often than not, results in a trip to Dollarama.

Here's where Dollarama becomes the envy of virtually every other retailer. It is impossible to get out of a store without buying a cart's worth of goods. Whether it's the price point, the bundling of goods together, or just the broad selection of availability, shoppers can't leave the store with just one item.

This became apparent in the most recent quarter. Dollarama noted an 11.2% increase in sales to $738.7 million. On an earnings basis, diluted net earnings per common share showed an impressive 17.9% increase over the same quarter last year, rising from $0.78 to $0.92 per share.

Much of the increase in sales can be attributed to strong comparable store sales growth of 5.1% and a 5.8% growth in the average transaction price for the quarter.

Dollarama prides itself on selling goods that are available for $4 or less. The $4 price point was recently added, replacing the previous high price of $3.50. While there are a number of reasons for the increase, the significant point here is that at a higher price point, Dollarama can now provide an even greater array of goods at increasing levels of quality.

Strong growth

The 1,069 stores that Dollarama has may seem like an overwhelming number, but in terms of market saturation, the dollar-store market in Canada is nowhere near as crowded as it is in the U.S., leading Dollarama to estimate that a network of over 1,400 stores in Canada could be supported without cannibalization.

Dollarama has even contemplated moving outside Canada. The company has a multi-year agreement in place with a chain of dollar stores in Central American called Dollar City. Under the deal, Dollarama provides support and expertise in a number of areas and even has the option to purchase the chain outright at the conclusion of the current agreement.

While Dollarama does pay a dividend, the current payout of $0.10 per share is insufficient enough to lure would-be income investors; at the current share price of just under $100, the dividend provides a 0.40% yield.

The flip side of this is that Dollarama has raised that dividend steadily over the past few years and is likely to continue to keep increasing it for the next few years.

In my opinion, Dollarama remains a strong long-term option for those investors looking to diversify their portfolios with a strong retail stock.

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