



Dollarama Inc.: A Great Defensive Play

Description

Over the past five years, few stocks have performed as well as **Dollarama Inc.** ([TSX:DOL](#)). The company's stock price has more than quadrupled in this time frame with steady, unimpeded growth since its initial public offering.

Here's why this company's stock price is on such a run, and where it is likely to be headed from here.

Defensive nature of the business

It is clear from the consistent and steady rise of this discount retailer's stock that it is not just the defensive nature of the business that led to its impressive rise. Since the end of the last recession, Dollarama has picked up speed, opening hundreds of new stores and expanding its reach across the otherwise fragmented discount-retail industry in Canada.

Right now, however, the defensive nature of the stock and the possibility of more market uncertainty in the quarters and years to come could be one of the drivers of a continued rally for Dollarama. Should the economy worsen, shoppers will be looking for places to stretch their dollars further, potentially adding fuel to the fire that has been burning hot at one of Canada's best-performing companies of late.

Dollarama's margins are also very impressive, considering the fact that the business is operating in the discount-retail space with downward pressure on margins arising from competition and the weakening Canadian dollar. With an operating margin above 21% and a profit margin above 15%, Dollarama is well positioned to continue to expand and chip away at the market share lead it has in the Canadian market.

Concerns

While Dollarama has been expanding aggressively, competition in the discount-retail space remains stiff in many urban markets.

Dollarama has traditionally been able to increase its margins through excellent supplier management and effective product offerings in smaller sizes at better prices; however, a weakening Canadian dollar

may continue to provide margin issues for Dollarama down the road, potentially pinching earnings in the future should Dollarama be unwilling to raise its price cap above its current level of \$4 per item.

Bottom line

Dollarama has a well-defined and well-executed corporate strategy with good management and excellent margins. The significant opportunities for additional growth in under-served markets makes Dollarama an excellent option in the Canadian discount-retail space. I have yet to be disappointed by Dollarama management.

This is an interesting long-term defensive hold for investors looking for returns in good times and in bad.

Stay Foolish, my friends.

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