

## How High Can Dollarama Inc. Go?

### Description

There are many things to like about **Dollarama Inc.'s** ([TSX:DOL](#)) business model. The Canadian dollar-store chain reported its Q1 2017 earnings yesterday, beating expectations on earnings using a growth strategy that appears to be paying off. The company reported earnings of \$94.7 million, or \$0.82 per share, compared with analyst estimates of \$0.79 per share, and revenues which rose 10% year over year.

Dollarama's earnings release highlights the strength of the company's long-term growth strategy. Many companies can simply go out and buy market share, slashing costs and profit margins in the pursuit of it with the idea being that the company will be able to make up the difference in long-term profitability as competitors are squeezed out of the industry.

Being able to increase market share and margins simultaneously is a very difficult thing to do.

Dollarama's unique position in a less-competitive Canadian market than in the U.S. market, for example, means the dollar-store chain has much more latitude to grow faster and more profitably than perhaps many analysts expected.

One aspect I like the most about Dollarama's business model is how defensive this business is; in good times and in bad, this company can be expected to make money. During recessions or temporary periods in which household incomes decline or unemployment picks up, companies like Dollarama tend to far outperform the broader index; such companies actually tend to perform better in these periods due to what economists like to call their product mix of "inferior goods" — goods that are inversely related to the performance of the broader economy.

In economic times when certainty is hard to come by, defensive investors can certainly look to Dollarama and see value, even as its valuation multiples have continued to climb.

Dollarama's solid business model, and management's tweaks to the business model of late, including adding credit cards to point-of-sale transactions and raising the maximum price threshold for goods, has allowed the business to increase its gross margin from 37% last year to 37.6% this year, giving the company increased earnings potential, supporting management's long-term top- and bottom-line growth strategy.

Additionally, Dollarama has announced its intention to buy back shares — up to 5% of the company's shares, or a total of 5.7 million shares until June of next year.

### Bottom line

Investors looking for a "catalyst" with Dollarama can find many. Dollarama remains one of the few defensive growth stocks available today which I would wholly recommend.

Stay Foolish, my friends.

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