Can Dollarama Inc. Continue to Expand?

Description

Dollarama Inc. (TSX:DOL) never ceases to impress me.

Whether it's a series of better than expected results or an insatiable appetite for expansion, Dollarama continues to set an example for how a retail chain can be successful, even in the face of growing competition from both new market entrants as well as online merchants that lack physical brick-and-mortar stores.

So, what is the secret behind Dollarama's success, and can that success continue?

The allure of Dollarama

Dollarama is, without a doubt, an interesting store to visit. Dollarama's stores are stocked with goods that are priced at fixed price points that currently max out at $4.

One of the first things that newcomers to Dollarama will realize is, unlike other dollar chains, Dollarama has a wide assortment of product offerings. Most of the items Dollarama carries are imported goods, and many of those goods are bundled into a single price point, which gives shoppers the impression that they are getting a better deal.

As a result, Dollarama continues to shatter expectations with each and every quarterly result.

Quarterly results

In the most recent quarter, Dollarama announced sales of $704.9 million, bettering the same quarter last year by 10%. That strong growth was directly attributed to continued strong sales growth and, by extension, comparable store sales, which realized a 4.6% increase over and above the 6.6% increase noted in the same quarter last year.

Another key contributor to the positive results was the company's recently completed decision to allow credit card payments at all of its locations. This was viewed as a natural evolution for the company, as prices have steadily crept higher in recent years, and customers have been purchasing more with each transaction.

In terms of net earnings per common share, Dollarama reported $0.82 per share, handily beating the $0.68 per share noted in the same quarter last year by 20.6%.

One of the goals that Dollarama has been striving for over the past few years was to continue growing the number of locations it has across the country. In the most recent quarter, the company did just that, opening 13 net stores, surpassing the eight net new stores opened in the same quarter last year.

Dollarama's competition

One of the often-noted concerns about Dollarama is whether or not the company can continue to grow at its current pace, which now consists of over 1,000 locations. Industry experts have been quick to put this fear to rest, however, noting that the Canadian market can still support hundreds of additional locations before coming anywhere close to being as saturated as the U.S. market.

There are also the prospects of international expansion. Dollarama has an agreement in place with a dollar chain operating in Central America, which, upon completion of the deal in several years, will allow Dollarama to purchase the chain outright.

Competition in the domestic market has been heating up in the dollar store space, with several new companies looking at entering or expanding operations in the Canadian market.

Dollar Tree Inc. (NASDAQ:DLTR) is one such company. Dollar Tree is the largest dollar store chain in the U.S. with over 13,500 locations in all of the 48 contiguous states. Dollar Tree has 226 locations in Canada, and the company is now looking at expanding into Quebec — a province Dollar Tree doesn't have a presence in.

Dollar Tree hasn't been coy about its expansion plans either. The company has noted that the Canadian market could see upwards of 1,000 locations, with both Montreal and Quebec City being cited as key expansion points.

Despite the growing competition, Dollarama remains, in my opinion, a great investment opportunity for those investors looking to add a retail stock with strong growth prospects to their portfolios.

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dafxentiou