

Shopify Inc. and Dollarama Inc.: Should You Buy These Red-Hot Stocks?

Description

Dollarama Inc. ([TSX:DOL](#)) stock shot up 10.64% on September 7 after the company released its second-quarter earnings the same day.

In its fiscal 2018 second-quarter results, the company reported an increase in sales of 11.5% to \$812.5 million. Store sales saw growth of 6.1%, and the gross margin was 39.6% of sales — both increased from the previous year. Operating income increased to \$191.9 million, representing growth of 24.1% from fiscal Q2 2017. Dollarama also announced that it was on its way to opening between 60 and 70 new stores in 2018.

Dollarama started accepting credit card payments at stores in the beginning of the second quarter. CEO Neil Rossy boasted that customers spent more than twice the usual amount when shopping with credit cards, which gave a huge boost that offset operational costs to cater to credit card users. The company also brought in product offerings that performed well in the second quarter in spite of lower expectations due to colder summer months.

The stock has now jumped 36.9% in 2017 as of the close on September 7. The board of directors announced a dividend of \$0.11 per share, representing a dividend yield of 0.33%.

On September 7, Canadian e-commerce darling **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) increased 2.18% to close at \$137.50. The stock has now seen growth of 138% in 2017 and an astonishing 293% since its initial public offering in May 2015.

Shopify saw a massive boost after it reported its second-quarter earnings on August 1. The results wowed experts and analysts as revenues climbed 75%, and the company reported a smaller-than-expected operating loss of \$15.9 million. CEO Tobias Lütke was enthusiastic that Shopify has successfully passed through a period of internal growth and is now ready to put on the accelerator in terms of profitability.

Shopify has roared since its IPO and has even outpaced U.S.-listed tech darlings like **Netflix, Inc.** and **Facebook Inc.** Since the IPO, Shopify has grown to 500,000 customers from its original 165,000. There are concerns about the reliability of these numbers and just how many turn into productive users on the Shopify platform. Online businesses can burn out quickly, and Shopify does not release how many users depart the platform on a monthly basis.

Canadians are no stranger to tech darlings that experience through-the-roof valuations only to come down to earth later on. Shopify is a booming and expensive growth stock with a lot to prove.

Canadian markets are anxious after two Bank of Canada rate hikes, and investors should exercise extreme caution when it pertains to riskier assets.

Shopify's business model is exciting, and it will be fun to watch the company grow, but right now, I

prefer the sure bet that Dollarama provides. The company has proven its durability in post-recession years, and the stock also provides some income to investors' portfolios.

Both stocks are at risk of overheating after second-quarter results, but right now I am buying Dollarama over Shopify.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:DOL (Dollarama Inc.)
3. TSX:SHOP (Shopify Inc.)

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1. Msn
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