

Is Dollarama Inc. Still a Buy After its Jump to a Record High?

Description

Dollarama Inc. ([TSX:DOL](#)), Canada's largest owner and operator of dollar stores, surged 11% on September 7, adding to its 30% gains so far this year.

This whopping gain in Dollarama shares came after the Montreal-based discount retailer surprised analysts by posting better-than-expected earnings in the second quarter.

Profits rose 31% to \$1.15 a share, topping the \$1.04 average estimate as comparable-store sales increased 6% and the retailer raised its gross-margin forecast for the year. Total sales rose to \$812.5 million, above the \$808 million forecast by analysts.

After Dollarama's impressive performance in the second quarter, many investors are wondering whether this growth stock still has some upside left or if they're too late to get on board.

I think the momentum Dollarama stock is riding on has still some steam left, and it still represents a great long-term opportunity for buy-and-hold investors. Here is why.

Unique retail strategy

While the Canadian retail market proved to be a graveyard for many top retail brands, including **Target** and, more recently, Sears Canada Inc., Dollarama's story has been totally different. The main reason of its success is that the discount chain built its strategy around one theme: targeting the Canadian middle class.

The Canadian middle class is very price conscious. Unlike their neighbors in the south, they don't care too much about brands. Canadian customers are keener to find deals because their wage growth has been very minimal since the 2008 recession.

Dollarama also benefited from the Canadian market, which is less saturated than the one in the U.S. And its longstanding policy to stay away from fresh food also paid off.

Should you buy Dollarama stock now?

Dollarama stock hit a record high of ~\$137 after posting a stellar second-quarter earnings report. At this level, it's hard to make a "buy" call, as stock valuations look a bit stretched after this remarkable bull run.

But just to keep things in perspective, Dollarama's earnings have surprised almost every year since its initial public offering in October 2009. And those who bought and held at the IPO price of ~\$10 have made a killing.

Despite its supersized gains in the past eight years, I think Dollarama is still a great growth stock to hold as a long-term investment. Meagre competition in the discount retail space, a rising Canadian

dollar, and the company's robust expansion plan make Dollarama a solid growth play.

And don't forget: Dollarama also pays a \$0.11-a-share quarterly dividend, which has doubled during the past five years.

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