# Have Shares of Dollarama Inc. Peaked?

## Description

**Dollarama Inc.** (TSX:DOL) may finally be losing steam as its share price has increased just 1% in the past month and has dropped almost 2% of its value since reaching an all-time high of over $140 a share. Year to date, the stock has risen 40%, and the amount of upside left in the share price might be limited. I'm going to have a closer look at the stock's recent history to see whether there is still an opportunity to make money on this stock or if investors should be selling any investments in Dollarama.

**The current valuation is high**

The company's stock price currently trades at over 33 times its earnings and is well above other retailers, including **Canadian Tire Corporation Limited** (TSX:CTC.A), which trades at 15 times earnings, and **Loblaw Companies Ltd** (TSX:L), which is priced at a multiple of just 23 times its profits. However, Dollarama is banking on the fact that investors will value its strong growth in a struggling industry, as the company's most recent quarter saw sales rise 11% from the previous year.



One way we can evaluate its price to earnings against its growth is by using the PEG ratio, which divides the per-share earnings by the company's average growth. In three years, Dollarama has seen a compounded annual growth rate of 29%, which would result in a PEG ratio of 1.14. Since the ratio is over one, it indicates that the price is expensive for the level of growth the company has achieved, but not by much.

**Earnings have propped up share results**

Outside of two big jumps on earnings day, Dollarama's stock has not seen persistent increases in share price. At the end of March, when the company announced strong Q4 results, its share price jumped 11% and increased another 10% back in September, when it posted its second-quarter results. However, for most of the activity between earnings announcements, the stock's price has been fluctuating within a narrow range.

Investors might be tempted to take a gamble on earnings day, as the company has seen an increase in share price on each of the last four days it reported earnings.

**Dollarama may be more suitable for short-term investing**

The retail industry is facing many risks in the coming years with **Amazon.com, Inc.** threatening to wreak havoc, with its entrance into grocery stores with its acquisition of Whole Foods, and rising minimum wages in multiple provinces, which will have adverse effects on profitability. Both of these risks make investing in retail unappealing, and there is little (if anything) that the discount retailer will be able to do to mitigate these threats.

**Is the stock a buy today?**

Dollarama is not a stock I see moving up much from its current value, unless it has another strong earnings. Although Dollarama is able to remain competitive, the long-term risks combined with the company's rising debt levels make it unlikely that it will be able to weather the storm.

However, in the short term, investors that are feeling lucky may want to buy the share right before earnings and hope for a good result, which could send the stock up another 10%.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)
3. TSX:L (Loblaw Companies Limited)

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