Why it’s Time to Invest in Canada’s Best Retailer

Description

This week marks not only the U.S. Thanksgiving weekend, but also the start of the holiday shopping season and, with it, the biggest day of the year for retailers, appropriately coined Black Friday.

Canadian retailers have steadily adopted the feverish marketing practices of our neighbours to the south, touting the biggest sales of the year to lure huge crowds and boost sales.

Dollarama Inc. (TSX:DOL) is arguably Canada’s best-performing retailer, and unlike some other retailers that have since folded, it won’t be waiting on Black Friday sales to attempt to boost figures for the next quarter.

Here’s a look at Dollarama and why the dollar store chain could be the perfect investment for your portfolio.

The Dollarama effect will keep shopper traffic high

I’ve noticed and personally experienced something that I like to call the “Dollarama effect.” When venturing into one of Dollarama’s +1,000 stores to get one or two items, most, if not all of us, will find it nearly impossible to escape without filling a cart full of items.

This is due to the unique pricing model of Dollarama, whereby all products are priced at various levels that max out at $4 per item. Dollarama has also expertly bundled some lower-priced items into groups of two or three for a single price point, thereby creating the illusion of even greater value to shoppers.

While other retailers and dollar store chains have tried to mimic this model, few, if any, have had the same level of success as Dollarama. Another reason for this success to consider are the products themselves that Dollarama sells, which, unlike other dollar store operators, consist of a wider array of products with more variety.

Dollarama’s unique product mix is a competitive advantage of its own

The bulk of Dollarama’s goods are imported from foreign markets such as China, and recent movements in the loonie have helped the company bulk up in terms of product offerings.

When the loonie surges in value, the buying power of Dollarama increases, meaning that the company can either buy more of product for the same price or turn to a higher-quality product offering for the same price as the previous (now lower-priced) product.

With the holiday season fast approaching, those bundled products and higher-priced items could serve as perfect stocking stuffers.

But what about purchasing Dollarama? Is the stock still a good investment?

Critics of Dollarama often point to the fact that the stock has surged 60% in the past year and nearly 160% over the past three-year period as a reason to state that the company is on the expensive side.

While Dollarama may appear to be expensive, an important fact to note is that the company has consistently outperformed during earnings updates and has steadily increased the number of store locations across the country.

Industry pundits have long held the view that Canada’s dollar store market is nowhere near the saturated level of the market in the U.S.; the market here is still capable of supporting substantial growth. That’s part of the reason that U.S. and Chinese dollar store chains are planning to expand further into Canada.

Dollarama even has an agreement in place with a Central American dollar chain that, upon expiration in the next year, provides Dollarama the option to purchase the chain outright.

Dollarama isn’t set to report results on the latest quarter until next month, but judging by the most recent results available, Dollarama remains poised to continue the current trend of impressive growth.

In my opinion, Dollarama remains an excellent holding for long-term growth, and it is sufficiently defensive in nature to keep on growing should the economy begin to cool.

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