1 Amazon.com, Inc.-Resistant Retail Stock That Belongs in Every Portfolio

Description

Online retail giant **Amazon.com, Inc.** (NASDAQ:AMZN) continues to swallow market share from traditional brick-and-mortar retailers at an alarming rate. Back in August, Amazon completed the almost US$14 billion acquisition of upmarket grocery store Whole Foods Market Inc. This gives Amazon a solid footprint in the highly competitive fresh foods segment, challenging established grocery chains such as **Empire Company Ltd.** and **Loblaw Companies Ltd.**

The online retailing giant announced in September that it was seeking a second Canadian headquarters as it focuses on beefing up its presence in Canada, which remains a relatively untapped market for e-commerce compared to the U.S. Amazon's rapid expansion coupled with its considerable growth prospects continue to apply significant pressure to traditional retailers.

Nevertheless, not all retailers are vulnerable to Amazon's relentless growth nor the massive industry-wide transformation triggered by the advent of e-commerce.

Now what?

One retailer that continues to stand out for all the right reasons, including its resilience to the advances of Amazon, is **Dollarama Inc.** (TSX:DOL). Dollar stores sell low-cost convenience items at a deep discount to price-sensitive customers. That combined with the low spend per customer, which has been estimated to average around $10 per sale, low margins, as well as the high sales volumes required to be profitable make it virtually uneconomic for Amazon to compete.

According to research from investment bank **Morgan Stanley**, dollar stores are the least likely retail segment to be materially disrupted by Amazon. This is primarily because they target price-sensitive shoppers who make opportunistic purchases on the basis of value and convenience, which is something that Amazon finds extremely difficult to compete against.

These attributes coupled with Dollarama's unique value proposition have been a key driver behind the retailer's incredible success.

For the third quarter 2017, comparable same-store sales, an important growth metric for retailers, grew by 4.6% year over year, while its operating margin grew by 1.7% to 23.3% for the quarter. That impressive operational performance gave Dollarama's bottom line a solid bump with adjusted net earnings per share popping by a healthy 25% year over year.

This strong growth will continue, not only because of Dollarama's resilience to Amazon, but also because it continues to open new stores at a solid clip. By the end of the third quarter, Dollarama had 66 more stores than a year earlier and expects to open an additional 60-70 stores over the coming year, which should see comparable same-store sales growth of 4-5%.

Even after allowing for the impact of the minimum wage increase in Ontario, Dollarama's EBITDA margin over the next year should come in at a robust 22.5-24%, underscoring the profitability of its business.

So what?

Dollarama's resilience to Amazon coupled with its solid growth prospects make it an attractive stock for any portfolio, particularly when the latest pullback, which sees it down by 9%, is considered.

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