# A Top Canadian Growth Stock to Buy Today

## Description

Investors are getting a little nervous when they see the share performance of **Dollarama Inc.** (TSX:DOL) this year so far.

After reaching a record high of $170 a share early this year, Dollarama stock gave up all of its gains and now trades about 5% lower for the year. Is this weak performance a blip in the long history of delivering the market-beating performance for this discount retailer or a sign of a downturn?

If you analyze the company's financials, you won't be able to see any red alerts. With a massive spending spree on its expansion during the past five years, Dollarama has more than 1,100 stores — a huge jump from the 700 stores it was managing in 2012.

This expansion produced great results for Dollarama's shareholders, who saw their investments surge more than three-fold as sales grew at a compound annual growth rate of 12% since 2014, more than doubling the company's bottom-line profitability.



I don't see this growth trajectory going off track after looking at the company's latest quarterly earnings report. Dollarama reported a 5.5% same-store sales growth rate, and earnings per share jumped 17% to $1.45.

**Two headwinds in 2018**

Despite this positive outlook, however, there are some headwinds obstructing Dollarama's move to the next level. First is the minimum wage hike in Canada's most populous province, Ontario — a move which has increased the cost pressures.

But that setback is happening to all retailers, and I think Dollarama is in a much better position to absorb this cost with its top-line margins and a unique retail strategy. Another pressure is coming from the Canadian dollar, which may come under pressure after the Bank of Canada's recent signals that it's in no rush to hike the borrowing cost.

The Canadian dollar was a significant underachiever in the first quarter of 2018, falling 2.6% against the U.S. dollar — the worst performance among the major currencies.

If the Canadian dollar continues to weak, Dollarama will get hit because it imports a significant amount of its merchandise that's priced in U.S. dollars from overseas.

**The bottom line**

For long-term investors, I think Dollarama remains a great growth story, combining consumer appeal with a highly profitable business model. After the recent pullback, Dollarama is trading at the forward price-to-earnings multiple of 25, which looks quite attractive to me, especially with the company's history of delivering consistent earnings surprises.

Trading at $149 a share at the time of writing, Dollarama stock offers a 10% discount from the Street's consensus 12-month target of $165 a share. Despite its massive gains in the past five years, I think Dollarama is still a great growth stock to hold as a long-term investment. Meagre competition in the discount retail space and the company's robust expansion plan make Dollarama a solid growth play. Dollarama also pays a $0.48-a-share annual dividend, which is 17% higher when compared to last year.

**CATEGORY**

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