One Top Canadian Growth Stock to Buy in May

Description

When it comes to growth investing, investors generally think of high-flying technology stocks. But Dollarama Inc. (TSX:DOL) is a Canadian gem that has shown that it is indeed possible to produce consistently superior returns for growth-hungry investors despite a challenging retail environment.

This explosive growth stock shows no signs of slowing anytime soon. During the past five years, Dollarama has opened more than 1,100 stores — a huge jump from the 700 stores it was managing in 2012.

If you analyze the company's recent quarterly results, this strategy has begun to pay off. In its fourth-quarter earnings, Dollarama reported a profit of $1.45 per diluted share compared with $1.24 per diluted share a year earlier, thereby beating analysts' average forecasts of $1.40 per share.

This performance is far from ordinary at a time when retailers are facing cost pressures following a 21% jump in the minimum wage in Ontario, Canada's most populous province, earlier this year.

Expansion paying off

Dollarama's expansion coupled with its unique retail strategy of targeting Canada's middle class produced hefty returns for its shareholders. In the span of five years, investors have more than doubled their investments as sales grew at a compound annual growth rate of 12% since 2014.

Thus far, Dollarama is cruising through Canada's retail landscape without a major competitor. Virginia-based **Dollar Tree, Inc.** (NASDAQ:DLTR) expanded into Canada in 2010, but has thus far failed to pose a serious threat to Dollarama, which manages five times more stores than Dollar Tree does.

For long-term investors, Dollarama stock also holds great income appeal. The retailer has a history of paying steadily growing dividends. In its fourth-quarter earnings, Dollarama hiked its quarterly payout by one penny to $0.12 a share. The company also plans to split its shares on a three-for-one basis, subject to the approval of shareholders.

Is Dollarama stock attractive?

Trading at $148.30 at the time of writing, Dollarama shares are down ~5% this year. Although its stock has fared much better when compared to other retailers, the stock is still 12% down from the 52-week high. This weakness mainly stems from Ontario's minimum wage hike, a weakening Canadian dollar, and the perception that brick-and-mortar retailers face a bleak future amid the shift to online channels.

But given Dollarama's track record of crushing expectations quarter-after-quarter and its dominant position in the discount-retailing sector, I think this stock is still attractive.

With a future price-to-earnings multiple of 25 and a 12-month consensus price target of $165, I think Dollarama is a top growth stock for investors with a long-term investing approach.

CATEGORY

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2. TSX:DOL (Dollarama Inc.)

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