3 Reasons Why You Should Think About Buying Dollarama Inc. (TSX:DOL) on the Dip

Description

You'd be hard pressed to find a better performing stock on the TSX over the past 10 years than Montreal-based **Dollarama Inc.** (TSX:DOL).

An investor who'd purchased $10,000 of Dollarama stock back at the start of 2010 would have seen the value of that investment grow to an incredible $139,298 today.

Talk about a windfall!

Imagine how many party supplies, Halloween costumes, chocolates, and candy you could afford to buy from your local Dollarama store with those winnings.

Dollarama has experienced tremendous growth in recent years, but a review of the company's latest quarterly report suggests that its growth trajectory may be far from over.

Following a 70% rise in the value of its share price during 2017, the stock has given back some of those gains to start 2018, making now one of the better opportunities in years to add the company to your investment portfolio.

Here are three good reasons why you should give an investment in Dollarama careful consideration.

Dollarama has announced ambitious plans to continue adding stores to its network

In the fiscal year ended January 28, 2018, Dollarama added 65 new stores to its existing retail network, bringing the total from 1,095 to 1,160.

The company now has retail locations in each of Canada's 10 provinces, led by Ontario, Quebec, British Columbia, and Alberta.

But it's not stopping there — far from it.

This year, the company plans to add another 60-70 stores to its network and plans to continue adding to its existing base for the next eight years until it reaches its goal of 1,700 stores by 2027.

Doing the math, that works out to an average of 60 new stores each year and a compounded annual growth rate of 4.9% over that span.

And it's adding items to those stores that are farther up the value chain

I'll be perfectly honest: Dollarama has been sneaky good at managing to extract additional dollars from its customers' wallets every time they go into a company-owned location.

Over the years, Dollarama has incrementally been adding items to its stores that carry with them higher and higher price points. Today, every product in a Dollarama location costs less than $4, but in 2017, more than 67.1% of items sold cost more than $1.25 — an increase over 63.4% in fiscal 2017.

This strategy carries with it two important benefits.

One is that it has helped the company to raise its average transaction price by 4.6% and, in doing so, generate more sales per store every year.

Second, items with higher prices points tend to carry higher margins as well, and the proof is in the pudding, with the retailer managing to bump up its EBITDA margin in 2018 from 39.2% to 39.8% of sales.

Thanks to the nature of its business model, Dollarama is isolated from the threat of e-commerce

In case you've been living under a rock for the past five years, the retail sector has found itself under immense pressure from online competitors like **Amazon.com, Inc.** and independent online retailers that have taken advantage of online shopping platforms, such as the one offered by **Shopify Inc.**

Yet Dollarama has managed to find itself immune to the pressures of slowing sales and falling margins.

Dollarama sells largely impulse items, such as paper plates for a picnic or birthday party — items that are not exactly the kind of things you're likely to go shopping for online. And owing to the lower price point of the products Dollarama carries, paying the additional shipping and handling charges usually associated with online purchases is enough to deter consumers and send them to their local Dollarama outlet.

Bottom line

While online shopping has certainly made a sizable dent in many retailers' profits in recent years, Dollarama — at least thus far — has proven to be the exception.

With a visible plan to grow over the next decade, now could be a great time to add this holding on a short-term pullback.

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