# Is Dollarama Inc. (TSX:DOL) Still a Promising Investment?

## Description

Retail companies continue to be some of the most misunderstood investments on the market today. Many traditional retailers who still operate under the brick-and-mortar model of prior generations continue to struggle in face of the massive changes implemented by internet commerce behemoths.

Fortunately, one area where the internet giants of commerce have yet to fully penetrate is the discount dollar store model that is used by **Dollarama Inc.** (TSX:DOL).

Dollarama offers shoppers a wide assortment of goods that are priced along several different points, all of which max out at $4. Additionally, many of the products are bundled, which gives the perception to shoppers that they are getting a greater value than they really are.

Years of growth, particularly the period following the Great Recession, has rendered Dollarama as arguably one of the best retail stocks in Canada and a great growth pick for nearly any portfolio.



That view may finally be changing thanks to the growing presence of a foreign competitor.

**Dollarama's impending threat**

While internet retailers may not be in a position to counter Dollarama's dominance in the market, there is another area of concern, which comes in the form of other dollar store chains entering or expanding into the Canadian market. I first mentioned that this could happen nearly a year ago; this past spring, Miniso — a China-based discount retailer — announced plans to open 500 stores in Canada over the next three years.

Miniso, which first opened a store in Canada last year, expects to have 100 stores across the country open for business by the end of the year, offering a wide variety of products, like Dollarama, but with a wider range of prices from $2.99 to $34.99.

While Dollarama isn't planning to sit on its laurels in the face of that competition, Dollarama isn't exactly acknowledging the potential threat that Miniso poses.

Commenting last year, Dollarama CEO Neil Rossy stated, "We will consider them as competition as we consider all the other retailers in Canada as competition."

There are two concerning parts to this comment that I can see.

First, Miniso's price range and product offering is a clone to Dollarama's highly successful model, but with a higher top price, Miniso will likely be able to offer a wider variety and higher quality of products than Dollarama. To put it another way, while Dollarama has been around for well over two decades, the company only really began to take off after adding a variety of price points in 2009, 2012, and 2016.

With each new price point, Dollarama could stock higher-quality goods while retaining a sense of being a dollar store, like the rest of its peers at the time, which kept prices at $1. Miniso is essentially doing the same thing by entering the Canadian market with higher price points.

**Is Dollarama a good investment?**

There are plenty of reasons to love Dollarama — the impressive results, the aggressive approach to expand operations, and the fact that the Canadian dollar store market is nowhere near as saturated as the U.S. market. This, as well as its small but growing dividend, should keep long-term investors content, but there are legitimate concerns over how much longer Dollarama's growth can continue.

In my opinion, Dollarama remains a good long-term investment for those investors looking for growth, but they should not expect current growth rates to persist, as competition intensifies and the market continues to evolve.

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dafxentiou