



Should Dollarama Inc. Remain in Your Portfolio?

Description

When it comes to retail, there are few challengers on the market to counter the incredible investment that is **Dollarama** ([TSX:DOL](#)). Part of the reasoning for that stems from Dollarama's incredible mix of products, which are offered at set price points up to \$4, and part of that can be attributed to Dollarama's aggressive expansion over the years to become the largest dollar store operator in Canada.

Is that growth sustainable, though? Over the past year, Dollarama's growth has slowed, and a variety of factors, ranging from the loonie and interest rates to the ongoing trade war between China and the U.S., could have an impact on Dollarama.

Let's take a closer look and try to answer that question.

Growth and headwinds ... what's next for Dollarama?

Dollarama announced results for the second fiscal quarter earlier this month, which continued to show growth of 6.9%, but as impressive as that may sound, it was a significant drop over the 11.5% growth reported in the same quarter last year. In a similar vein, same-store growth saw a 2.6% improvement; while respectable, it was a noted drop over the 6.1% growth from the same period last year.

In terms of earnings, Dollarama managed to see diluted earnings per common share come in 13.2% higher over the same quarter last year to \$0.43.

Dollarama's incredible growth over the past few years has surpassed the expectations of most investors. That being said, that level of growth was clearly not something that was likely to persist indefinitely, and Dollarama's recent results still paint a positive picture for the retailer that many other [traditional retailers](#) operating in the same sector would be more than pleased with.

One way that Dollarama could see a boost in growth would be to expand into new markets. Few investors may realize it, but Dollarama has interests in a chain of 100 smaller stores in several Central American nations called Dollar City. Under the terms that current agreement, Dollarama could exercise its right to purchase the chain outright in 2020, gaining a solid foothold into a slew of developing

economies where dollar stores are gaining in popularity.

A similar opportunity exists in Dollarama's foray into the online sector. Dollarama is still targeting to allow for online sales and shipping to customers in Quebec by the end of the year and then rolling that out to the rest of the country thereafter.

When the U.S. imposed tariffs on steel and aluminum earlier this year, Canada fired back in retaliation with its own set tariffs. While most of Dollarama's products are imported from China, there are some products, such as candy bars and some food items, that are actually from the U.S. and could see increases if the current climate continues to persist. In a similar vein, rising interest rates in the U.S., the ongoing uncertainty around NAFTA negotiations, and the trade tensions between both the U.S. and China could make Dollarama's purchasing power decrease over time.

Earlier this year, Dollarama cited the concern over its U.S food products, noting the intent was to keep prices at their current level, which is \$2 for food items and up to \$4 for other items. As of the most recent quarter, Dollarama's margins are still on the same level as they were in the last quarter.

While these factors could present challenges for Dollarama over the next few months, overall the company remains a great long-term investment for [growth-seeking investors](#).

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/24

Date Created

2018/09/28

Author

dafxentiou

default watermark