

## Should You Buy Dollarama Inc (TSX:DOL) on the Dip?

### Description

Since releasing its [quarterly results](#) just a few weeks ago, **Dollarama (TSX:DOL)** stock has been crashing and is down around 14% in the past month. The big reason for the decline is that the popular dollar store didn't show much organic growth in the quarter — something that investors have become accustomed to. And without that, it may be hard to find a reason to buy the stock.

However, investors shouldn't write Dollarama off just yet. It's still a good stock that has a lot of potential. Let's take a look at three reasons why you should consider buying the stock today.

#### **Dollarama could very well rebound next quarter**

Sure, Dollarama had a disappointing earnings result, but that's all that it was — one bad quarter. There are still [many opportunities](#) for the company to grow, especially as wallets get tighter amid rising interest rates and higher costs. Dollar stores are great options for people with limited disposable income, and tougher times might bring in more traffic to Dollarama's stores.

There's also the possibility that this past quarter was an anomaly and that Dollarama will be able to get back to its higher rate of growth next quarter. And let's not forget, sales for the quarter were still up 7% year over year — a figure that many retailers can only dream of.

It's not all doom and gloom for Dollarama, as there's plenty of reason to be hopeful that the company will be able to recover, and the more the stock drops in value, the more potential upside it could have for investors that buy today.

#### **The stock is approaching oversold territory, and that's rare**

The Relative Strength Index (RSI) is a useful indicator that helps gauge a stock's gains and losses over the past 14 trading days. And when losses become excessive and the RSI drops, it could signal that the stock is oversold and due for a recovery. With an RSI of around 32 as of Tuesday's close, Dollarama is right around 30, and if it drops below that threshold, it is considered oversold.

It hasn't been often that Dollarama has dipped into oversold territory over the past year, as normally it quickly pulls out of there. Investors that have bought on the dip have seen the share price bounce back up, even if for only a brief period of time. If the stock continues to decline, it might be too good of a deal to pass up.

#### **Dollarama is generating a lot of cash**

Profits are what companies are normally evaluated on, but its cash flow that keeps operations running and allows a company to take on big acquisitions or projects. And Dollarama has done a great job of accumulating it with free cash flow totaling \$410 million over the trailing 12 months.

Cash gives Dollarama a lot of flexibility to do what it deems necessary to help fix its struggling growth. With a good stream of cash flow, the stock is in no imminent danger and the company could be

positioning itself for a strong rally.

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1. Investing

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1. TSX:DOL (Dollarama Inc.)

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