Dollarama Inc (TSX:DOL) Stock Is a Defensive Investment in Times of Uncertainty

Description

Over the past six months, I have been quite critical of **Dollarama** (TSX:DOL) — not about the company itself, but about its high valuations. For a long period, the company's stock price was a momentum play and was bid up to unsustainable levels. This was not a stock that was bought on fundamentals, but on historical success.

Dollarama is one of the most successful Canadian IPOs of the past decade. Since listing in 2009, the company has returned approximately 10% annually. The problem was, investors were still pricing the company as a high-growth stock. In its early days, Dollarama was growing at a blistering pace, but in 2018 its share price was trading well above its expected growth rates.

Now that the company has corrected, it may be time to look at it once more.

A defensive stock

One of the most attractive aspects of the company is its status as a consumer defensive stock. These are stocks that tend to deliver consistent earnings and growth regardless of the overall stock market. After a relatively stable mid-2018, we are once again faced with significant volatility.

Over the past month, the TSX Composite Index has lost 6.97%, while the TSX Consumer Staples Index outperformed with losses of only 1.56%. Dollarama has performed in the middle with a 3.45% loss.

Current valuation

As mentioned previously, my Dollarama bear thesis centered on its stock being overvalued. Now that is has corrected, is valuation still a concern? It's much less. Dollarama is now trading at 24.95 times earnings and a forward P/E of 20.45. It is also trading at a P/E to growth of 1.69, which signifies that its share price is still expensive relative to its expected growth rates. Analysts expect the company to grow sales and earnings in the high single digits and low teens through 2020.

At this point, it does not serve investors well to compare Dollarama against its historical averages. Why? As mentioned previously, the company's growth has slowed considerably. As such, historical averages are inflated. It will take a few years before its five-year historical averages provide real value.

That being said, the company's valuation is much more respectable than it once was. The company is still the dominant player in the industry and should command a slight premium.

Investors looking to shift their portfolios into a more defensive position would do well to look at Dollarama. Make no mistake; this is no longer a high-growth company and its stock is fully valued. Despite this, investors can comfortably expect returns that track its expected growth rates and a growing dividend.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/09/29
Date Created
2018/10/26
Author
mlitalien