This Growth Stock Has 30% Upside

Description

Back in September, **Dollarama** (TSX:DOL) stock was still pricey, despite a 17% drop in the stock. Fast forward to today, the stock has fallen some more and is now trading at about $37 per share as of writing. Is the growth stock a buy today?

First, let's take a look at the company's recent results.

Slower growth in the first half of fiscal year

Dollarama generated sales of $1.6 billion, which was an increase of 7.1% compared to the same period in 2017. In comparison, positively, the selling, general and administrative expenses only increased by 4.9%. Operating income grew 8.1% to $358.1 million and net earnings increased by 7.4% to $243.3 million. Diluted earnings per share climbed 10.6% to $0.73.

Dollarama's growth dampened as its year-over-year sales growth and comparable store sales growth were 10.8% and 5.4%, respectively, in the first half of fiscal 2017, but were 7.1% and 2.6% this fiscal year. That said, its operating margin improved from 21.8% to 22%.

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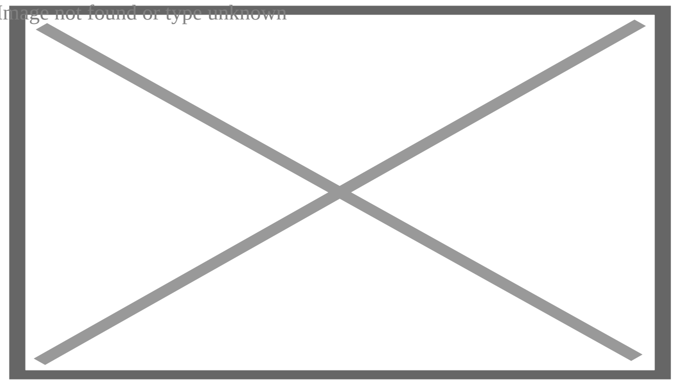

The business

At the end of July, Dollarama had 1,178 stores in Canada. Its dollar stores offer a wide range of consumer products, general merchandise, and seasonal items at attractive prices of up to $4 each. This fiscal year Dollarama plans to add 60-70 stores.

There's intense competition in the value retail space, not just with respect to price, but also the location of the stores, the quality of the products, product availability, customer service, etc.

In the first half of the fiscal year, Dollarama sourced 56% of its purchases overseas. While Dollarama buys products from +28 countries, the majority of its overseas products come from China for which it pays in U.S. dollars.

As a result, the foreign exchange fluctuations between the Chinese currency, the greenback, and the loonie will have a direct impact on how much Dollarama pays for its products. Tariff disputes, including the potential impact from the United States–Mexico–Canada Agreement, will also add pressure to the stock.

Investor takeaway

Instead of the roughly 10-13% sales growth we've seen in each of the past few years, Dollarama's sales growth dropped to 7% in the first half of this fiscal year.

The analyst consensus from **Thomson Reuters** thinks Dollarama will grow its earnings per share by about 13.7% per year for the next three to five years. If it materializes, at about $37 per share as of writing, the growth stock trades at a price-to-earnings multiple about of 22.5, which represents a PEG ratio of about 1.6.

So, the stock is a good value today. In fact, the analyst consensus has a 12-month target of $48.20 per share, which represents a near-term upside potential of almost 30%.

Dollarama is a great business with a strong track record of returns on assets and invested capital, which were about 24% and 33%, respectively, in fiscal 2017. With the latest pullback of 22%, it's a good place to start buying the stock for long-term growth with the idea of buying more on any meaningful dips.

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