Will You Still Bet Your Bottom Dollar on Dollarama Inc (TSX:DOL)?

Description

Dollarama (TSX:DOL) has come under intense scrutiny lately. Canada's premier discount store chain is seemingly undergoing a stress test. The latest reported sales figures for the second quarter ended July 29, 2018, drew apprehension rather than applause.

For most of the nearly 10 years as a publicly listed company, Dollarama has been endeared to investors. However, the magical stock of the TSX since its 2009 IPO lost its spell. September was a month to remember, because the shares of Dollarama fell 19.6%. The drop was uncharacteristic and perplexing.

The sales numbers

The nearly 20% price drop from $52.07 to $41.06 is quite intriguing. It was a knee-jerk reaction from investors, to say the least. For one, the sales figures weren't disappointing at all. Overall, sales increased by 6.9% to $868.5 million, which were enough to deliver a strong bottom-line performance.

Neil Rossy, president and CEO, said in relation to the second-quarter fiscal 2019, "Over six months into the fiscal year, we are on track for solid earnings growth in Fiscal 2019 and sustained long-term performance for the benefit of shareholders while maintaining our compelling value proposition to consumers."

Dollarama is by no means in the red, except that the market can be unforgiving at times. Because the company failed to meet the lofty expectations of investors, the stock is on a downtrend. On the second trading day this month, the price fell slightly below $40 before dropping to its lowest to $37.58 on October 10.

Adjusted sales forecast

The two consecutive straight quarters of below-expectations growth did not sit well with investors. This Montreal-based dollar store has consistently produced stellar financial results. Alarm bells were triggered and set a downhill drift.

The company cited poor weather conditions in the quarter ending April 2018. There was delayed consumer demand for the summer seasonal products. Fortunately, Dollarama was able to recapture that weather-related deficit in the following quarter.

Now, management deems it imperative to adjust the sales forecast. The range previously stood between 4% and 5%. But now, sales are expected to increase by about 2.5-3.5%. More stores will be added this year. But the more pressing concern is how to minimize price increases so as not to affect customer patronage.

The gross-margin forecast was increased as well given the lower-than-expected inflation on Chinese imports and certain measures to regulate costs. It's business as usual for Dollarama notwithstanding the challenges it faces.

The buying opportunity is present

Dollarama is not about to deviate from its highly successful $1 price commitment plus other items that cost slightly higher. The stock is currently hovering close to $40, and at that the price, it's worth investing now because a rally is not a remote possibility.

Dollar stores selling products at bargain prices will thrive because frugal customers will always be around. The cash registers at Dollarama would still ring even during recessions. Investors can bet their bottom dollar on that.

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cliew