

Begin the Holiday Shopping Season With This Retailer

Description

Welcome to the [holiday shopping season](#), investors.

While frantic consumers are out braving the cold, fighting for a parking spot and getting that perfect gift for the person in their lives, what many of us are coming to realize is the incredible opportunity that continues to be posed by investing in a growth-focused retailer such as **Dollarama Inc.** ([TSX:DOL](#))

Dollarama's incredible rise to fame is no coincidence; the retailer has amassed a network of over 1,000 stores across all of Canada and continues to foresee strong growth and new store openings for the next few years.

Performance: strong, but not as strong as before?

Dollarama's most recent financial earnings update came this past September, when the retailer posted \$868.5 million in sales, representing an increase of 6.9% over the same period last year. Comparable store sales in the quarter saw solid growth of 2.6% above the 6.1% growth reported in the previous year, EBITDA saw a 7.9% improvement in the quarter, coming in at \$225.8 million, and operating income saw a 7.7% improvement to 206.7 million. Diluted earnings per share came in at \$0.43, surpassing the \$0.38 per share reported in the same period last year.

Despite the strong showing of Dollarama, the strong growth rates announced over the past few quarters are often raised by critics as beginning to level off, hinting at market maturity of the product.

Expansion plans and risks

While Dollarama only went public about a decade ago, the company's growth to over 1,000 locations across the country occurred in a fairly rapid succession. Critics also often point to this rapid expansion as something that cannot persist much further. In the most recent quarter, Dollarama opened just eight net new stores compared with the 17 net new stores opened in the same period last year.

Despite the slowdown, market experts have noted in the past that the Canadian dollar store market is nowhere near as saturated as the U.S. market and could support hundreds of additional locations, which is great news considering a slew of foreign dollar-store operators have begun to scope out expanding further into the Canadian market.

As with other retailers that buy products in bulk from mainly foreign markets, Dollarama's product selection and profits can be impacted by fluctuations in the loonie. A stronger loonie translates into greater buying power abroad for Dollarama, meaning that the company can either buy higher quality goods or a greater quantity of existing goods. On the other hand, a weaker loonie means that Dollarama can buy less of the same product or turn to more inexpensive products. Introducing new price points is often a way to hedge against that weakness or offset rising costs in those foreign markets.

Interestingly enough, few investors realize that Dollarama is already operating in some capacity outside of Canada. Back in 2013, Dollarama signed an agreement with Dollar City – a Central American chain of dollar stores with locations in El Salvador, Guatemala, and Columbia. Under the terms of the agreement, Dollarama provides merchandise to the stores, advises the chain on business matters and has the option to buy a majority stake in the chain at the close of the current agreement in 2020.

If Dollarama does decide to exercise on that option, it could usher in yet another period of aggressive growth.

Final thoughts: to buy or not to buy?

There's no denying the fact that Dollarama has had an incredible past few years, with double-digit growth as proof of its incredible performance. Additionally, adopting fixed price points, bundling products under a single price, and the gradual introduction of accepting credit cards in stores have helped keep that growth strong.

While that growth may continue to slow over the next few quarters, Dollarama remains a [solid retail stock](#) to have in your portfolio.

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Author
dafxentiou

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