Is Dollarama Inc. (TSX:DOL) Stock Really Recession-Proof?

Description

It is a common belief that **Dollarama** (TSX:DOL) stock is recession-proof.

And there are good reasons for this belief, as this retailer offers consumers low-priced everyday products that have resulted in a very strong sales growth trajectory for the company.

And this, along with excellent company-specific execution, has resulted in massive gains in Dollarama's stock price over the last five years, rising an impressive 122%.

But more recently, Dollarama stock is now down almost 40% year to date, as earnings expectations have come down, reflecting a slowing environment, and as the stock's lofty multiples have also come down.

Going forward, here are the three main reasons I think Dollarama stock will not prove to be as recession-proof as investors are hoping.

Lower traffic

Rising interest rates will drive discretionary consumer spending lower, which will affect all retailers.

And while Dollarama sells many "necessities," it also sells many "want" items that will fall prey to this trend.

We have seen this in recent same-store sales growth of 2.6% in the second quarter and 3.1% in the third quarter, which are not numbers that signify strong growth.

Pricing increases a thing of the past

Furthermore, in the last few years Dollarama has gradually increased its price point on certain products, and while this had been a success, the company is now seeing pressure on traffic and the number of transactions and so has made the decision to minimize price increases, which will continue to hit margins.

Estimates still too high

Estimates for Dollarama have been slowly coming down, and the stock is certainly trading at much more attractive multiples at this point since the stock price has come down so much.

But earnings have been coming in slightly below expectations in the last couple of quarters, and it seems that future earnings estimates may still be too high given this new environment.

Although estimates are being adjusted downward, I think the downward momentum will be stronger and harder, so it will take time for the full adjustments to be made to bring them more in line with reality.

Final thoughts

At a time of rising interest rates and a consumer at risk, a retailer is not the best stock to be invested in, especially one whose estimates are still at risk.

So, while Dollarama will be more recession-proof than many other Canadian retailers, I think the stock will languish here until expectations come more in line with reality and until there is a catalyst.

I think the stock price is still pricing in faster growth than the company will achieve, and it is therefore still trading at multiples that are too high.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/28
Date Created
2018/12/13
Author
karenjennifer