Why Dollarama (TSX:DOL) Stock Is an Incredible Contrarian Bet for 2019

Description

As you may know, I've been extremely bearish on **Dollarama** (TSX:DOL) over the past year and a half. On January 3, I issued a strong sell recommendation on the stock, warning investors that the stock's severe overvaluation would give way to a nasty pullback. I wasn't a fan of Dollarama's valuation, the rising competition in the discount store space, or the management team, who made poor decisions that I was not at all impressed by.

Management chose to repurchase its own shares at a time of extreme overvaluation; they were reluctant to invest in technological initiatives or store-traffic driving initiatives, and I thought they were oblivious of the fact that up-and-coming competitors like Miniso (and even **Amazon.com**) were already breathing down their necks.

I'm not going to continue harshly criticizing Dollarama in this piece, as I've already done so many times in the past. I'm ready to turn bullish on the company because as you may know, at a certain price, every stock becomes a buy, and after Dollarama stock plunged 42% from peak to trough, I think the valuation is more in line with what's realistic.

Now, the push that sent Dollarama shares off the cliff was the abysmal earnings report that showed disturbing evidence of a potentially long-lasting slowdown to the company's same-store sales growth (SSSG) numbers. If you waited for the proof, you lost big-time, but fortunately for many Fools, the writing was on the wall, well before the company released its brutal quarter that triggered a "reset" in shares as a lower-growth play that didn't justify a 30-plus price-to-earnings multiple.

At the time of writing, Dollarama shares trade at a 19.9 times trailing earnings (and 14.8 times next year's expected earnings), which while more modest is still indicative of a stock that has plenty of growth left in the tank. While there may be more room to run, it's clear that all the low-hanging fruit has already been plucked by the once beloved market darling, and it's going to be a tougher road ahead if the company expects to continue to post double-digit top-line growth numbers.

As I've mentioned in a prior piece, Dollarama needs to better-cater towards the millennial cohort by offering better in-store experiences, and that management would need to jump on the e-commerce bandwagon because Amazon, a disruptive force that many thought discount retailers would be immune to, was beginning to tap the discount scene with its low-cost add-on items.

Indeed, Dollarama's management team has begun to prep its defences with its recently launched online store that's being piloted in the province of Quebec. The move, I believe, is applause-worthy, and seems to suggest that the company is ready to roll up its sleeves to turn things around.

Now, I would have preferred if the company undertook such initiatives pro-actively before its stock plummeted over 40%, but better late than never, right?

Foolish takeaway on Dollarama stock

I suspect that Dollarama's new online store will win back some of the business of many bulk buyers who have flocked to Amazon, which offers free shipping for discount goods after a certain price point.

However, Dollarama isn't out of the woods yet, and there's still a ton of reinvestment (like sprucing up its existing physical locations) that management needs to commit to before I'd feel comfortable owning the stock.

If you're a value investor who's confident in the abilities of management, however, Dollarama shares are now in the bargain bin, so now may be a great time to back up the truck.

So, there you have it, I've finally turned bullish on Dollarama, and all it took was a 42% pullback in shares and a sign that management was committed to spending on technological initiatives to retain its throne in Canada's discount store scene.

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