Will Dollarama Inc. (TSX:DOL) Stock Perform Better in 2019 Than in 2018?

Description

The year 2018 has been a hard one for **Dollarama** (TSX:DOL). After years of positive returns in the double digits, the discount retailer stock entered in negative territory, and it has kept falling since the beginning of the year. The stock has lost almost 40% year to date, while the TSX has lost about 11%.

Let's look at what may have caused this pessimism among investors about Dollarama, and whether it will last in the coming year.

Things started off well, but worsened through the year

Dollarama started the year rather well. The results of its 2017 fourth quarter, which were released in March, beat expectations like all previous quarters. Profit grew by 11% to $163 million and revenue grew by 10% to $938 million. Same-store sales grew by 5.5%. Dollarama increased its dividend by 9% to $0.12 per share. The stock rose about 5% in reaction to those results.

Things began to get ugly for Dollarama after the release of its 2018 first quarter results in June. This quarter marked a turning point for Dollarama. Indeed, after delivering better-than-expected results for 13 consecutive quarters, the retailer missed analysts' estimates for the first time.

In addition, growth slowed as compared to previous quarters. Profit and sales rose about 7%, to $102 million and $756 million, respectively. Same-store sales increased by only 2.6%. Dollarama was hurt by a prolonged winter that lowered sales. Investors were disappointed by the results, and the stock plunged a further 7%.

But Dollarama worst day of the year was September 13, when the company released its second-quarter results. The stock plunged more than 17% following a weak quarter. Same-store sales increased by only 2.6% — far from the 6.1% recorded last year. Sales were up 7% to $868.5 million and profit grew by 7.6% to $141.8 million. Dollarama also lowered its forecast for the year.

Dollarama's third-quarter results, which were released on December, weren't enough to convince investors and the stock lost 12%. Profit and revenue still missed analysts' expectations. Profit grew by only 2.7% to $133.5 million, while sales grew 6.6% to $864.3 million. Same-store sales grew 3.1% compared with growth of 4.6% in the same quarter a year ago.

Gross profit margins slipped to 38.9% of sales compared with 40.1% a year earlier, as the retailer resisted raising prices in the face of increasingly stiff discounter competition.

Fewer shoppers came to Dollarama's stores – there were almost 1% less transactions than a year ago – for the third consecutive quarter, while the average transaction size rose 4%. CEO Neil Rossy tied fewer shoppers coming to stores in the quarter to some Halloween sales, having shifted to the fourth quarter and more credit-card transactions, which result in fewer but bigger purchases.

The stock is losing popularity

Dollarama has been a stock-market favourite since it went public in 2009, but this year its popularity has declined. Investors had lofty expectations for the retailer that the retailer wasn't able to meet. This slowdown in growth explains the falling stock price.

It is difficult for Dollarama to maintain a strong growth; consumers may be tempted to shop at competitors like U.S.-based **Dollar Tree**, which sells items costing no more than $1.25, whereas Dollarama's items sell for as much as $4.

It appears that consumers don't like to pay higher prices at Dollarama, and some are even saying that it is no longer a dollar store.

"It's been said that we are no longer a dollar store but, in reality, we still have a ton of less than a dollar, $1 and $1.25 items," Mr. Rossy told analysts on a conference call.

Dollarama wants to prove to consumers that it is still a retailer of $1 items by putting more emphasis on the items in its stores that are sold in this price range.

This is not the end of growth for Dollarama

I still believe that Dollarama is one of Canada's best retailers and is smart enough to adjust its strategy and get going again. International expansion could also be its best path back to growth.

But still, even if Dollarama will continue to grow, it's probably going to grow at a slower rate going forward than it had in the past. A growth rate of 13% is expected for the next five years, which is still pretty good for a retailer. I think the stock should perform better in 2019 than it did in 2018, as I feel the stock has been punished enough.

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