An Emerging International Opportunity for Dollarama (TSX:DOL)?

Description

The 2018 holiday season is already being regarded as the best one for retailers in the past six years. That figure may come as a relief for some retailers, as the continuing adoption of mobile, and now voice-initiated shopping draws in more customers over the more traditional brick-and-mortar retail traffic.

Interestingly enough, there are some segments of retail that are either still immune to, or not exposed to the new norm of mobile shopping. Grocers still have the benefit of the perishable and fragile nature of their goods, not to mention the personal nature of food shopping that still hasn't fully evolved with the market.

The other area to note is the low-priced market served by dollar stores such as **Dollarama** (TSX:DOL) that benefit from their low-priced products that are still not fully cost-effective to be shipped.

Opportunity: Dollarama

Dollarama has been one of the most intriguing investments anywhere for much of the past decade that the company has been on the market. Part of that intrigue stems from the incredible growth that the company has continued to offer investors, but critics have been quick to point out that growth has slowed over the past few quarters.

In the most recent quarter, Dollarama realized sales of $864.3 million, thereby representing a 6.6% increase over the same quarter last year. Comparable store sales growth saw a 3.1% uptick in the quarter, while EBITDA came in at $214.6 million, reflecting a 3.5% increase over the same quarter last year.

Dollarama also opened 14 net new stores in the quarter, which also surpassed the 10 net new stores opened in the same period last year, and Dollarama has opened 43 new stores this fiscal, with the year-end expectation by management being between 60 to 70 net new stores.

Dollarama's international venture, Dollar City is also seeing strong growth. Over the course of 2018, the company added 43 stores to its 150-store network, which now includes stores in Columbia, Guatemala, and El Salvador. Under the terms of the existing agreement that expires in 2020, Dollarama has the option to buy a controlling interest in the Latin American operation.

This is a massive opportunity for the company and one that is still largely dismissed by the market.

Consider this: Latin American markets hold massive opportunity. A move by one of Canada's Big Banks into the region has realized double-digit growth in the segment for well over a year, and the popularity of one-stop stores that sell bits of everything remains wildly popular in the region.

By example, that 150-store Dollar City network was nearly half its size last year, and in 2013 when the agreement was signed, Dollar City had just 15 stores. Furthermore, Dollar City's 61 locations in Columbia – the most across any of its currently served country markets in the region is impressive given that Dollar City has only been in the region for under two years.

To discount further expansion over the next year would be folly, and the potential market opportunity from Peru and Ecuador, two markets previously mentioned as expansion targets for Dollar City with large populations and higher per capita GDP is massive.

In my opinion, Dollarama remains an intriguing option for investors looking to diversify their portfolios with a retail stock, and the retreat across the market in recent weeks provides a unique opportunity to pick up Dollarama at a discounted rate.

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