

2 Reasons Why Dollarama Inc. (TSX:DOL) Will Rebound in 2019

Description

Dollarama ([TSX:DOL](#)) did not have a great year on the stock market. While the TSX did not perform well, DOL's return was significantly lower than the average. This performance has opened the door for value investors who believe DOL is currently undervalued. There are good reasons to believe the Montreal-based dollar store chain will rebound in 2019; let's consider two.

Good financial results

[Much has been made](#) of DOL's catastrophic year on the stock market. The company's financial results were not nearly as bad, however. The dollar store chain released its third-quarter earnings report in December. DOL's 39-week performance which ended on October 28, 2018, compares favourably to the corresponding period of the previous fiscal year.

DOL increased its sales, gross profits, and net earnings by 6%, 5%, and 6%, respectively. The company's earnings per share increased by 10%. During the first three quarters of 2018, DOL opened 57 new stores compared to 66 during the same period from the previous year. Some analysts have pointed to DOL's slowing growth, but the company was on pace to meet its goal of opening between 60 and 70 stores in 2018.

International growth

DOL has been very successful on the market since its IPO in 2009, in part because of the company's nearly exponential growth in terms of the number of stores it owns. At the time, DOL had a little over 580 stores. Dollarama now has in excess of 1,190 stores. DOL has managed to double the number of stores it operates in Canada in fewer than 10 years.

While there is still room for growth domestically, DOL is currently looking to replicate the success it had in Canada abroad, [particularly in Latin America](#). In 2014, DOL reached an agreement with the Central American dollar store chain **Dollar City** to "supply it with merchandise, advise it on business matters and lend product assortment expertise."

Dollar City hoped to expand its operations throughout Central and South America with the help of Dollarama's expertise, and so far, the strategy seems to be paying off. In 2013, Dollar city had 15 stores in El Salvador and Guatemala. That number has now skyrocketed to 77 stores, and Dollar City has also opened nine stores in Columbia.

DOL will have the option to buy a majority stake in Dollar City in 2020. If management opts to do so, which seems very likely, Dollarama will have the opportunity to expand its operations into a very promising territory. If DOL can replicate anything close to the kind of growth it was able to achieve domestically in Latin America, the company's future looks bright.

The bottom line

DOL shed nearly 50% of its value on the market over the past six months, despite posting solid financial results and showing strong growth prospects. The company will likely rebound from its slump in 2019. Thus, now may be the perfect time to purchase shares of the dollar store chain. As the old adage goes: buy low, sell high.

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