Should You Buy Dollarama Inc. (TSX:DOL) Stock Today?

Description

Dollarama (TSX:DOL) stock rose 1.03% on January 28. Shares have climbed 9% in 2019, but are still down 37% year over year. Dollarama stock suffered significant declines in 2018. This broke a decade of dominance for the stock, as the Montreal-based retailer has benefitted from the massive growth of dollar stores across North America.

The spread of dollar stores in Canada and the United States increased following the financial crisis. Dollar stores managed to broaden a customer base that had previously serviced a narrow income bracket. The story of retail disruption has often focused on the rise of e-commerce giants like **Amazon.com**, but dollar stores have also challenged traditional big box retailers like **Walmart**.

What was behind Dollarama's disappointing 2018? For one, the retailer failed to meet the lofty expectations that analysts had laid out for the company. The company reported a $133.4 million profit in the third quarter or $0.41 per diluted share. This missed consensus estimates of $0.42 per share, and Dollarama stock plunged following the earnings release.

Comparable store sales grew 3.1% in the quarter compared to 4.6% in the prior year. The store reported a 4% increase in average transaction size. It credited its decision to strategically limit price increases as part of the reason for this solid growth.

Dollarama will proceed with a widescale rollout of an e-commerce platform this year. This follows a five-week pilot the retailer ran in its home province of Quebec. The online channel will cater to individual and commercial customers who wish to purchase low-cost items in larger quantities. The online channel will offer the same prices as brick-and-mortar locations.

I'd recently discussed how e-commerce could propel growth at specific companies as we look ahead to the next decade. Statistics Canada recently showed that online sales showed a 20% year-over-year increase in November 2018, and now accounted for 4.2% of all retail trade in Canada. Adobe Analytics data reported that online spending reached $126 billion during the 2018 holiday shopping period, representing a 16.5% year-over-year increase.

Dollarama is expected to release its fourth-quarter and full-year results in late March. Should investors jump at the opportunity to add the dollar store retailer today?

As of close on January 28, Dollarama stock boasted an RSI of 60, putting the stock just shy of overbought territory as we look ahead to February. January 2019 has proven to be one of the best opening months in decades for the TSX, coming after the worst since the 1930s in December 2018. This volatility remains a concern for long-term investors, and economic indicators have been a mixed bag over the last several months.

Dollarama has fallen short of analysts' expectations in consecutive quarters. The opening of its e-commerce channel for customers nationwide is a promising development, but shares still look pricey in late January. Back in early December I'd recommended investors exercise patience before stacking Dollarama stock. Shares would hit a 52-week low in mid-December.

Today investors should exercise caution when it comes to the Canadian dollar store giant. Potential buyers have a buffer ahead of its next earnings release to wait for valuations to pullback to more attractive territory.

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