Dollarama Inc. (TSX:DOL): Say Goodbye to This Top Growth Stock?

Description

Companies in their growth cycles go through many troughs and peaks. That concept has suddenly become important to understand if you have invested in Canada's discount retailer, **Dollarama Inc.** (TSX:DOL).

After producing stellar earnings for several years since its IPO in 2009, this retailer is on a downward spiral for the past three quarters. A big strategic move by this dollar store that pushed the prices of some items to as high as $4 didn't resonate well with the company's customers. The move slowed the pace of robust growth in store sales for which Dollarama was so loved by investors.

The Montreal-based retailer reported almost one percent decline in transactions for the third quarter – a slowdown that kept the retailer on the defensive for the third consecutive quarter. During the period, its gross profit margins slipped to 38.9% of sales compared with 40.1% a year earlier.

The market reaction to this sluggish phase has been quite punishing for Dollarama stock, which has lost 37% of its market value since January 2018.

Is Dollarama stock a buy after this plunge?

For investors who want to hold a quality retailer in their portfolio, this massive decline could be a good buying opportunity. In my view, the question isn't whether Dollarama will be able to grow, but at what pace it will manage to grow when the competition in retail space is intensifying and online sales are taking away a major chunk of the sales?

Dollarama's consumer proposition has been one of the most powerful and its business model is one of the most financially productive. That strength is there even with disappointing Q3 earnings.

"Over the last few years, Dollarama has improved speed of checkout, store layout, store lighting, in-stock position, product adjacencies, and store and product merchandising," Desjardins Securities analyst Keith Howlett wrote in a recent note. "The relative value offered is still compelling, and there are no good alternatives to Dollarama," he said.

Just to provide you with some perspective, Dollarama has a dominant position in Canada's discount space. With a massive spending spree on its expansion during the past five years, Dollarama has more than 1,100 stores — a huge jump from the 700 stores it was managing in 2012.

This expansion produced great results for Dollarama's shareholders, who saw their investments surge more than three-fold, as sales grew at a compound annual growth rate of 12% since 2014, more than doubling the company's bottom line profitability.

Bottom line

There is no doubt that Dollarama is at a tough point in its growth cycle, but it will be wrong to assume that the best is over for the retailer. I believe the company will overcome the current challenges and will return to its growth trajectory, helped by its dominant position and its huge physical presence. Trading at $35.42 at writing, this top growth stock is offering a good value and an entry point for long-term investors.

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