Dollarama Inc (TSX:DOL) Stock Is Down 39%: Here’s Why the Market Is Wrong

Description

Since its all-time high set in January of 2018, **Dollarama Inc** (TSX:DOL) stock has fallen 39%, giving up the entirety of its gains since 2017. This is great news for opportunistic investors.

Since its founding in 1992, Dollarama has grown into one of the largest bargain shops in Canada, with more than 1,200 stores spanning coast to coast. All of its stores are fully-owned by the company. Its value proposition to customers is simple: sell everyday products at low, fixed price points up to $4.

While shares have been under pressure recently, there’s reason to believe that current headwinds are temporary. Plus, the market seems to be missing two hidden growth opportunities. Let’s take a look at why the recent dip could represent an ideal buying opportunity.

The story is changing

The past decade has catapulted Dollarama into Canadian investing legend. In 2009, the company’s stock stood at just $3.25 per share. Even after the recent dip of nearly 40%, its price today still exceeds $35 per share, representing a 1,000% increase in just 10 years.

With more than 1,200 stores across nearly every Canadian metro area, including a large list of smaller towns, Dollarama is pushing up against its growth limit. There is, after all, a finite number of Canadians to purchase discounted goods.

In the third quarter, Dollarama opened 11 new stores. Based on recent quarterly results and its planned store pipeline, management expects to open 60 to 70 net new stores in the current fiscal year, which would represent growth of around 5%. That’s not too shabby, but far from its aggressive historical pace.

Still, same-store sales grew by 3.1% last quarter, meaning that its existing stores aren’t having trouble growing. The problem is simple: there aren’t enough places to grow.

Two factors that the market is missing

Slowing top-line growth has caused the market to re-rate shares, but don’t be fooled, as plenty of growth opportunities remain.

For example, while the company operates more than 1,200 locations, there are still millions of Canadians who don’t live within driving distance of the company’s stores. In fact, they may not live within a few hours of *any* store, which is why the company is opening a new online store to service this under-served population. While it may not add materially to revenues this year, it further strengthens the company’s scale in its primary geographies.

More exciting, however, is the company’s opportunities beyond Canada.

In 2013, it entered into an agreement with Dollar City to share business expertise and sourcing services essentially at cost, meaning that little to no profit will be made. What’s in it for Dollarama? Critically, the company has the option of acquiring a 50.1% interest in Dollar City starting in 2020.

The market may have forgotten about this potential growth driver, but you shouldn’t.

Dollar City has aggressively opened new stores in recent months, and now operates 150 locations throughout Latin America, including 42 in El Salvador, 47 in Guatemala, and 61 in Colombia. One year ago, the company operated just 107 stores.

On its latest conference call, Dollarama management said that it was “pleased by the pace at which Dollar City has been able to open stores, especially in Colombia, a key market in Latin America.”

Patience should be rewarded

Starting in 2020, Dollarama may gain access to a similar business model with a significant amount of growth potential. Over the next decade, the company could replicate its success in Canada across underserved, rapidly growing economies in Central America.

Investors are overly concerned with near-term struggles, but if you’re patient, investors have a great chance at winning big in 2020 and beyond.

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