Keep Dollarama (TSX:DOL) in Your TFSA and Get Rich

Description

When shareholders watch the meteoric rise or catastrophic collapse of a stock they own, it becomes a memorable event that we as investors tend to fixate on for a very long time. We've seen it with iconic tech stocks that have transitioned from one area to another, struggling through years of turnarounds and disappointing earnings.

We've seen it when one-time darlings of the market come to a screeching stop as a result of a failed business model. We also continue to see it in the retail sector through the slow and painful change being brought on through mobile commerce and changing consumer habits.

Ironically, some investors may be thinking of adding **Dollarama** (TSX:DOL) to that list of companies, particularly seeing as the company that took the market by storm a little over a decade ago has seen a third of its value eroded over the past year.

Why is Dollarama down? Does it matter?

Just under a year ago, it was unthinkable to assume that Dollarama would be down as much as it is. This is, after all, a company that has maintained impressive growth with each passing quarter for several years, showing steady, strong growth for its unique mix of products at fixed price points through its ever-expanding network of stores that extends across the country to over 1,200 locations.

Despite the stock flirting closer its 52-week low than high, Dollarama still holds potential to investors, which can be attributed to several unique points. First, there's the state of the market. Dollar stores are notorious for withstanding, if not thriving during pullbacks in the market, as consumers shop around for less-costly alternatives to their usual weekly purchases. As increasing signs across the market point to a potential slowdown, this could turn into a boon for Dollarama in future quarters.

Second, there's the timing. Dollarama's troubles came on the heels of a weaker-than-expected earnings report, where the company saw *only* a 6.6% year-over-year increase in sales to $864.3 million. Considering the dismal state of many traditional retailers, that doesn't sound too bad to me. Not every quarter is going to be a double-digit success, and, if anything, Dollarama's slump, which also bled into the time frame of the overall market slowdown we saw at end of the year, has resulted in a unique period to buy into a great retailer at a discounted rate.

Finally, let's talk about international and online opportunities. Dollarama's international presence, Dollar City, remains increasingly popular, and in the past several years the chain has expanded rapidly throughout the region to multiple markets. By way of example, just six years ago, Dollar City had a combined 15 locations just in El Salvador and Guatemala. Today, that number is upwards of 150 and includes locations in Columbia as well as plans to expand to Peru and Ecuador.

Dollarama's current agreement with Dollar City has the company providing merchandise and expertise to the chain until next year, when Dollarama has the option to purchase the chain outright. Given the incredible growth realized within the region over the past few years, that might not be a bad idea considering the growing signs of slowing sales here in Canada.

On the online front, Dollarama released an online shopping portal for bulk shoppers earlier this year, which seems like a clear opening salvo to the lucrative online segment where single-item orders are still unprofitable for shipping. Dollarama's bulk orders also carry a flat-rate shipping fee, and while we may need to wait for a quarter or more to see the impact of that new channel, it is an intriguing and innovative approach to increasing sales.

In my opinion, Dollarama remains an intriguing opportunity for long-term investors to add to their portfolio.

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dafxentiou