3 Reasons to Sell Dollarama Inc (TSX:DOL) Stock Today

Description

After years of relentless growth, **Dollarama** (TSX:DOL) is now the largest dollar store chain in Canada, with around 1,200 stores.

This growth has greatly enriched the company's long-term shareholders. In 2009, shares were valued at just $3.25 apiece. Over the next decade, Dollarama stock rose by more than 1,000%.

The past 12 months, however, have been difficult, with Dollarama stock shedding around 20% of its value. While some investors are scooping up discounted shares, here are three reasons why it may be time to sell.

Growth has plateaued

The biggest concern investors should have today is slowing growth. Now trading at 24 times trailing earnings, Dollarama stock is still priced at a premium versus the TSX Index. That premium may prove unwarranted.

Today, Dollarama already has multiple stores in nearly every Canadian metro area. In recent years, the company has also deployed dozens of stores across Canada's smaller markets. Based on recent metrics, it seems that Dollarama may have fully penetrated the market.

Last quarter, same-store sales grew by only 2.6% versus the year before. This is in stark contrast to the company's operating history.

Across 2016 and 2017, same-store sales growth averaged around 6%. In 2018, this average fell to just 2.8%. It's about time for investors to realize that this story has changed. Gone are the days of above-average growth rates.

Potential cannibalization

Dollarama grew its net store count by 65 locations in 2019. In a race to keep growth numbers high, it appears as if many Dollarama stores are now competing against each other.

In 2018, Dollarama opened a similar number of stores, yet same-store growth rates were double what they are today. It appears as if management is prioritizing top-line growth over the health of its existing store base.

The company anticipates opening 60-70 additional stores in 2020, meaning the company is unfazed by potential cannibalization. In fact, some recent research found “several Dollarama stores within several hundred meters away from each other.”

For years, Dollarama took market share from its competitors. Today, it seems to be competing against itself.

Insiders are selling

While company insiders may need to sell stock for a variety of reasons, it’s usually not a good look. On April 11, The Rossy Foundation sold 2,557,000 shares, nearly 20% of its holdings. The sale brings down its ownership level to just 3.6% of the company.

Earlier, more meaningful insider sales took place, such as Senior Vice President of Import Division Geoffrey Robillard offloading $8.7 million worth of shares in a single trade.

In total, insiders sold significantly more shares in Dollarama over the last 12 months than they purchased. In fact, there were *zero* insider purchases last year.

In light of struggling revenue growth and the cannibalization of store sales, it’s not surprising that Dollarama executives aren’t putting their money where their mouths are.

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