Dollarama (TSX:DOL) Still Has a Lot to Prove Before Getting My Money

Description

There have been a lot of mixed reviews coming out about **Dollarama Inc.** (TSX:DOL).

This stock has seen its fair share of downs, and seems to finally be coming up again. But I'm not so convinced that this retail company can stay there.

While the stock is in the increasing zone now, it's a far cry from where it was last year, selling at the time of writing at $39.27 rather than the summer highs of $53.63.

So you might think this stock is in for a major rebound, but I'm not so sure.

Long-term investors are happy

If you bought this stock a decade ago, it won't really matter to you (much) that this stock isn't performing at all-time highs. Back in 2009, the stock traded at around $3 per share, so that is quite the increase from what you're seeing today.

The company experienced a number of structural changes, including an increase in clients from a broader range of economic backgrounds. This was great for Dollarama and led to many new stores being opened, which has driven the company's growth over the past few years.

That said, those numbers are beginning to drop. Dollarama sought to open 1,700 stores in Canada, and that number has almost been reached. Once these stores have all opened, it will bring down revenue growth

Will any growth continue?

The company's most recent financial results for Q4 2018 were disappointing. In-store growth slowed from 5.2% last year to 2.7% this year, with earnings per share and EBITDA also falling short of analysts' expectations.

Once store openings begin to slow, we'll really see the company struggle. In fiscal 2020, Dollarama is aiming for 60-70 new store openings, which will really test this company.

Future outlook

Speaking of looking forward, this retail company has a few plans in motion. First, there are its consulting and services to Dollar City in Latin America. With only 170 stores, this company is already limited in how much growth it can really offer the company. At this point, consulting doesn't give the company a large stake, though it has the option to bump that up to 50.1% in 2020.

Then there's Dollarama's online store, which frankly just cannot attain anywhere near as big a presence like **Amazon**. Although online sales of its most popular items will be an additional form of sale, they won't be anything to get excited about.

Bottom line

The problems that persisted with this company in the past still persist today. Growth is steadily slowing, and there isn't too much the company can offer in a form of huge change that could bring customers back. Frankly, online stores like Amazon will fare far better.

However, I wouldn't tell you to sell your stock if you have it, especially if you've had it for a few years. You're likely seeing growth that shouldn't shrink too much. After all, though the opening of new stores will start to slow, it doesn't mean that they'll start closing.

At this point, Dollarama is still very much open for businesses, offering a wide range of products that people from every economic background want.

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