Dollarama Inc (TSX:DOL) Has Been Soaring: Is Now the Time to Buy?

Description

Retail stocks are usually not much to get excited about. However, **Dollarama** (TSX:DOL), for a while, was an exception to that with strong growth rates and impressive results that proved that its model was better than the rest. Unfortunately, growth rates slowed down and the stock fell out of favour with growth investors — until recently, that is.

Nearly a month ago, when Dollarama released its year-end earnings, the company said it was going to try and focus on increasing volume for its lower-priced items in response to concerns that the dollar store had become too expensive, with prices as high as $4. The discount retailer has put itself in a challenging spot of whether to focus on having high volumes and low-dollar items or a higher average ticket and lower volumes. However, even at its highest price tag, Dollarama still often beats the competition on price.

An improved quarter combined with a focus on more growth has made investors more bullish on the stock. In the past month, the share price is up around 15% and year to date the stock has risen by 23%. The stock is still nowhere near the highs it reached of $54 last year and it is down 19% over the past 12 months, but there's still a lot of potential upside for the share price to continue to climb further.

And now that Dollarama has an online store that it can try to target towards businesses, it will have another avenue that it can grow its sales through. It will be very telling to see how strong the demand will be for the business-to-business segment and whether the company uncovered an incredible growth opportunity, or whether it will be another store website that no one visits.

Organic growth will be key to success

Dollarama has a great opportunity to tap into consumers that are cash strapped and willing to swap out the grocery items they buy at a big-box store and instead stock up on supplies from their local dollar store. And so, while the company's growth has been soft for a few quarters now, there's an opportunity for Dollarama to get back to its higher-growth years.

Ultimately, investors are not going to look at this as a value investment, not with the stock having negative equity and trading at a price-to-earnings multiple of well over 20. And its dividend yield is minimal and no investor looking for a dividend stock is going to choose Dollarama for its nominal payouts. Growth is what the stock is and what it has to focus on. Opening more stores is one way to do it, but investors know there's a finite ability to do so before markets become too saturated.

Organic growth is the key to Dollarama's success and the current economic conditions should help the discount retailer see a lot of that soon, and that makes the stock an exciting buy, as it could have some good quarters coming up.

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