Why Dollarama’s (TSX:DOL) Stock Is Soaring Despite Slowing Growth

Description

After years of strong growth, **Dollarama** (TSX:DOL) hit a rough patch in 2018, as its stock price declined by 38%. Investors were disappointed by slowing growth in revenues and lower traffic. However, shares have soared by almost 30% since the beginning of the year. It appears that confidence in Dollarama’s capacity to keep up with a challenging retail environment is coming back.

Let’s look at Dollarama’s situation.

A fourth quarter slightly below expectations

For the fourth quarter, the company reported a profit of $172 million — up from $162.8 million a year earlier. The dollar-store chain raised its dividend to $0.044 per share quarterly — up from $0.04. Sales for the 13-week period totalled $1.06 billion — up from $938.1 million. Analysts on average had expected a profit of $0.55 per share on revenue of $1.07 billion. Foot traffic decreased by 0.4%, while comparable store sales grew 2.6%.

Dollarama’s growth forecast for 2020 is 9%, which is lower than its historical growth rates. The company said it expects same-store sales growth of 2.5-3.5% for the year, which is below its historical average same-stores sales growth target of 4-5%. Gross profit margins slipped to 40.4% of sales from 41.4% a year earlier.

Despite those numbers, Dollarama stock gained ground after its results release and ended the session at $35.20. The share price is still rising, and the stock price is now over $40.

Focus on lower prices

The number of customers coming to Dollarama stores has been declining for four quarters now. While this situation worries investors, CEO Neil Rossy admitted that his team had stopped focusing on low prices. But he promised to rectify the situation to generate growth in an increasingly challenging retail environment.

The idea is not to go back to a $1 store, but more attention will now be paid to prices, so there are always $1 and $1.25 products in each department. The Montreal company also indicated that special attention was paid to the layout of the stores to optimize their efficiency.

In its outlook for the coming year, Dollarama says it expects to add 60-70 new stores as part of its goal of having 1,700 stores by 2027.

The company also launched its online store in January, where it is selling about a thousand items for sale in bulk only. Rossy said it will take some time for the online sales to have an overall impact on sales but that it will fill a customer need.

Dollarama still has its place in your portfolio

We have to recognize that Dollarama is no longer the growth stock it was. While investors were clearly disappointed last year, it looks like they are starting to get used to Dollarama's slowing growth, as the stock keeps rising, despite reporting weaker-than-expected results.

Dollarama, like other retailers, is facing a challenging retail environment, as Canadians are spending less. Dollarama is trying its best to deal with the situation, such as focusing on lower prices to increase foot traffic to its stores.

I believe that investors are returning to the stock because Dollarama grows faster and shows higher financial returns than its competitors. For example, while Dollarama's earnings are estimated to grow at a rate of 10.2% on average annually over the next five years, **Walmart's** earnings are estimated to grow by only 3.5% for the same period.

I believe Dollarama is still a good stock to hold in a portfolio, as it is a stock that will probably perform well during a market downturn. When times are difficult, people try to save money by going to discount stores. In addition, the stock is becoming cheaper. Its forward P/E is only 19.2 compared to an average of 30.1 for the previous five years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/01
Date Created
2019/04/26
Author
sbchateauneuf