Better Buy: The Dollar Store or the Luxury Retailer?

Description

There is no other segment of the market that has undergone so much change in the past decade as the retail sector. Changing consumer spending habits, the advent of mobile device-based shopping, and, by extension, the emergence of internet-based commerce behemoths have transformed the retail sector so much that traditional retailers, with their large showrooms, are no longer cost effective to operate and no longer generate store traffic.

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While that carnage has been felt throughout the retail sector, dollar store chains such as **Dollarama** (TSX:DOL) and high-end luxury goods made by **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) have not only weathered the new retail norm but have thrived under it.

But which of these two companies represents the better investment option? Let's try to answer that question by looking at a case for both.

The case for Dollarama

Dollarama is the largest dollar store operator in the country with a network of over 1,200 locations that is well dispersed across the country. In terms of an international presence, Dollarama currently has an agreement with the Latin American dollar store chain Dollar City, providing expertise and merchandise. The deal has proven lucrative so far. In the past six years, Dollar City has grown from a small 15-store operation in El Salvador and Guatemala to its current over a 150-store portfolio that now spans into Columbia. Dollarama has the option to purchase the chain outright when the current agreement comes to a close.

Turning back to the domestic market, there's an important point to make note of about the dollar store model itself. The dollar store business model is less susceptible to the volatile nature of the market, and, if anything, revenues actually surge during the down periods of the market, as cash-strapped consumers look for less-costly means of purchasing goods. Adding to that appeal is the simplicity of Dollarama's retail model; it sets price points for every item in the store, which cap at $4. This allows the company to bundle certain items to maintain that value appeal that shoppers are looking for while keeping expectations in line.

Dollarama has managed to avoid the onslaught of mobile commerce far, as it would be unprofitable to ship singular items at $4 or less. The keyword in that sentence is singular — as Dollarama fired its own salvo at the online commerce world earlier this year by announcing an online shopping and shipping platform targeting wholesalers that purchase items in bulk.

Critics of Dollarama often note that Dollarama's incredible growth story is bound to come to an end soon, and Dollarama's growth has waned in recent quarters, but to be fair, any brick-and-mortar retailer that is still seeing a growth rate of over 5% is likely outperforming much of the sector.

The case for Canada Goose

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On the other end of the spectrum lies Canada Goose, with its $1,000 parkas, $650 ponchos, and $250 toques that all cater to a different audience.

Like Dollarama, Canada Goose has enjoyed a very public and well-executed expansion, but unlike Dollarama's brick-and-mortar expansion within Canada, Canada Goose has turned to pricey cold-weather locations around the world, where demand for Canada Goose products remains high, such as Beijing, Hong Kong, Tokyo, London, and New York.

The company is also in the midst of opening a slew of new flagship stores that will include several new markets such as Milan, Paris, and Banff, and I haven't yet mentioned the fact that Canada Goose is available through premium retailers in addition to its own branded flagship stores.

Overall, Canada Goose provides a premium product at a premium price, which has so far proven incredibly popular. This not only bodes well for retaining current customers, but also for attracting new ones that see that identifiable logo on the street. That's just one of many reasons why the stock has soared in the past year and why the company keeps posting positive results.

The better investment?

As much as I can see the potential for Canada Goose, Dollarama's recession-proof model seems the safer bet at this particular time. With a P/E of 57.33, Canada Goose also comes in just over twice as costly as Dollarama's 24.84. Dollarama also offers a paltry 0.49% dividend, which, while not an impressive yield, is better than nothing.

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