



Is It too Late to Cash in on Dollarama (TSX:DOL)?

Description

Despite feeling the pressures of slower earnings growth and volatile equity markets late last year, **Dollarama** ([TSX:DOL](#)) has rebounded this year. The Montreal-based dollar store has, after all, been a growth machine over the past 10 years, increasing its share price by a compound annual growth rate of more than 28% over this period.

Investors may naturally wonder whether Dollarama's run has come to a halt, or whether the firm's stock can continue defying gravity for years to come. What does the future hold for Dollarama?

How Dollarama grew over the past 10 years

Dollarama has been able to grow thanks to a combination of various factors. The dollar store business model is attractive to customers who are increasingly more conscious about the amount of money they spend.

Dollarama has managed to grow its customer base even more by offering more products (while generally keeping its low-pricing paradigm intact), and a rapid increase in the number of stores it owns; Dollarama has increased the number of stores it owns by 56% over the past six years.

This growth in the number of stores under its name — much of which has happened in primary markets such as Toronto — is set to continue (though at a slower pace) for at least a few more years.

Recent financial results

Over the past few quarters, organic earnings growth has been slowing down for Dollarama, though both its top line and bottom line maintain an upward trajectory. During Dollarama's latest reported quarter — Q4 2019 — comparable stores sales growth was 2.6%, an almost 3% decrease year over year.

Further, the firm's comparable stores sales growth decreased in each of the past three years and was

down to 2.7% for fiscal year 2019 compared to 5.8% and 5.2% in years 2017 and 2018, respectively. While Dollarama continues to post strong financial results, it's essential for investors to consider this relatively recent trend.

Can Dollarama keep growing?

According to top management, Dollarama is feeling the effects of an increasingly competitive retail environment in Canada, and there is no sign that this will stop anytime soon. Dollarama's future growth is therefore tied to its ability to differentiate itself from competitors and maintain a strong customer base.

The firm plans on doing so in at least two ways. First, Dollarama recently [launched an online store](#). What's interesting about the firm's online options, though, is that all products are offered in bulk. Dollarama claims this store fills an important need for customers.

Second, Dollarama plans on maintaining many of its in-store items at \$1, compared to slightly higher prices some of its competitors offer for the same items. The company hopes this move will maintain customer loyalty, which in turn will help keep earnings afloat.

Dollarama has another major growth opportunity it plans to exploit. The firm's partner in South America — Dollar City — now owns about 80 stores in El Salvador and Guatemala (up from 15 in 2013), and opened nine stores in Colombia. South America is an interesting growth market from which Dollarama could profit if it plays its cards right.

The bottom line

Dollarama's share price is still down from its 2018 (and all-time) highs. While the firm will likely manage to reach these levels again, it's doubtful that it will be able to replicate the growth it has experienced over the past decade.

With declining comparable sales growth, and an increasingly competitive retail market, and a decelerating economic landscape, Dollarama will have multiple obstacles in its way. There may be more left in the tank for the dollar store chain, but how much there is left likely falls short of what has fueled its past successes.

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Date

2025/08/15

Date Created

2019/05/15

Author

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