Are These Worrying Times for Dollarama (TSX:DOL) Investors?

Description

Dollarama (TSX:DOL) is often touted as one of the best retailers in Canada. Part of the logic behind that designation stems from the impressive run results the company has realized over the years, as well as the aggressive path in which Dollarama has been able to expand to well over 1,200 stores in such a short time.

Looking ahead to Dollarama's next earnings report, long-time critics of the company are now noting several factors that could bring that impressive growth to a screeching halt, ranging from a flood of new dollar-store entrants to the continued success and emphasis on the higher-end $4 price ceiling.

New dollar-store threats are everywhere

Dollarama's dominance in the Canadian market hasn't gone unnoticed, nor has the level of saturation within the market. In short, the Canadian market can support hundreds, if not thousands of additional dollar store locations across the country before reaching anywhere near the saturation of the U.S. market.

To that end, the market has attracted the attention of foreign dollar store operators looking to aggressively expand into the Canadian market. In particular, several prominent Japanese retailers have plans for Canada, with a different twist than Dollarama.

Among the entrants to the market are Daiso, with over 5,000 stores worldwide, but only a single location in Canada. Miniso is another Japanese-inspired, albeit Chinese-owned retailer that already boasts 50 locations in Canada with plans for more. Oomomo is yet another retailer that has attracted attention over the past year, with a wide array of products imported from Japan that covers everything from plastic storage containers and tea mugs to make-up and candy.

That's not to say that U.S.-based dollar store operators aren't looking to the north either. Several prominent operators from the U.S., some of whom already have a small presence in Canada have already stated their intent to expand operations further over the next few years.

Final thoughts — should you buy Dollarama now?

Dollarama, like any other investment option, comes with a certain level of risk. That said, there are still plenty of positives to take from Dollarama.

First and foremost, there's the dollar-store business model itself. While most traditional retailer may be undergoing a painful transition to meet the demand of the new retail model that is less reliant on brick-and-mortar stores, Dollarama has so far eluded that fate thanks to the fact that the products that Dollarama sells (still very much in demand) are not feasible to be sold online and shipped, save for large orders of goods, which coincidentally Dollarama launched within the past year.

Adding to that allure comes the fact that Dollar stores tend to perform better as the economy contracts, thanks to consumers turning to more frugal means and retailers to stock their homes with. For the moment, the Canadian economy is still puttering along, but should the market take another slowdown, Dollarama could see some gains.

Finally, there's the often-dismissed international potential of Dollarama, which comes in the form of Dollarama's multi-year agreement with a Latin American chain, including the option to purchase the chain outright. In the past few years, the chain has expanded rapidly and into multiple Latin American nations, leading many to believe that Dollarama could acquire the chain when the current agreement ends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/07/07
Date Created
2019/06/10
Author
dafxentiou