Dollarama (TSX:DOL) Stock Is Surging Again: Time to Buy?

Description

Dollarama (TSX:DOL), Canada's largest discount retailer, has had quite a tough year. Its stellar record of producing uninterrupted growth was in question, as sales slowed and fewer shoppers visited its stores. But the latest numbers show that that sluggish period is over.

Montreal-based Dollarama posted on Thursday a surprise 5.8% jump in comparable store sales that was more than twice the gain analysts expected for the quarter that ended May 5. The sharp reversal in growth, however, didn't come without cost.

The company reported earnings per share that were lower than expected, as gross margins narrowed. Dollarama stock jumped 11% to $46.99 that day, adding to its 45% expansion this year.

After producing stellar earnings for several years after its IPO in 2009, Dollarama was struggling to attract customers after a big strategic move that pushed the prices of some items to as high as $4. The move didn't resonate well with some customers, slowing the pace of growth in store sales.

DOL stock: sharp reversal in growth

The latest earnings showed that Dollarama chief executive Neil Rossy is on the right path to deal with the escalating costs and compete with rivals such as **Dollar Tree** and **Walmart**.

In the recent quarter, both the number of items each shopper bought and the number of transactions surged. The gross profit margins, however, fell to 42.1% of sales during the period from 43.8% a year ago. The company is expecting this momentum will continue in the current fiscal year.

"Fiscal 2020 is off to a good start for Dollarama," said Rossy in the earnings release. "Based on first-quarter performance, we are reiterating our full-year guidance across all key metrics … and revising upward our full-year assumption for comparable store sales to the range of 3% to 4%."

For investors who want to hold a quality retailer in their portfolio, Dollarama is a certainly a name to add. Its consumer proposition has been one of the most powerful and its business model is one of the most financially productive. The last quarter showed that that strength is there, even with a few disappointing earnings periods.

Dollarama has a dominant position in Canada's discount space. With a massive spending spree on its expansion during the past five years, Dollarama now has more than 1,100 stores — a huge jump from the 700 stores it was managing in 2012.

Bottom line

Dollarama stock is regaining its lost ground fast and it doesn't seem it will stop here. The discount retailers generally perform well when the economy slows down and the threat of recession rises. With this backdrop in mind, it's a good time to buy Dollarama stock, even after its 45% surge this year. Trading around $47 a share, this stock is still offering a good value to long-term investors

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