One of Canada's Best Growth Stocks Just Got Even Better

Description

As I've outlined before, one of the best ways to build your TFSA (or RRSP) into something worth a million dollars — or more — is to load up on top growth stocks and hold on over the long-term. It won't be a perfectly smooth ride by any means, but over a few decades it should work out pretty well.

The only thing left for investors to do is choose the individual stocks that fit the best in their portfolios. Here's the case for **Dollarama Inc.** (TSX:DOL), which has been one of Canada's top growth companies for a decade now. In fact, the bull case for Dollarama just got stronger.

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The skinny

Dollarama is Canada's top chain of dollar stores and one of our largest retailers in general. The company boasts some 1,200 stores spread across every province, which when combined generate more than $3.5 billion in revenue during its most recent fiscal year.

The firm's shares slumped in the latter half of 2018 after investors became concerned about its growth potential going forward. But this story is nowhere close to over, as the latest quarterly results show. Total revenues were up 9.5% when compared to the same quarter last year. Same-store sales, which is perhaps the most important growth metric in the retail space, shot up 5.9%. Net earnings increased by 6.5%, which were weighed down a bit by increased costs.

The company plans to open an additional 60-70 stores this year, and analysts see potential for hundreds more over the long-term. U.S. dollar store chains have had success opening in small towns, for instance, and Dollarama hasn't even started to go down that path. I see a future where Dollarama has 2,500 to 3,000 stores in Canada.

International expansion

Dollarama bulls have long pointed to the company's collaboration with Dollarcity, a Central American chain of dollar stores with 180 locations spread between Colombia, El Salvador, and Guatemala. The business plans to expand into Peru and Ecuador, too.

Yesterday, Dollarama made it official and acquired a 50.1% stake in the company, paying just 5 times EBITDA for its position. The deal is expected to close in the next couple months, and the price tag was cheap enough the company will fund it out of internal cash flows. It won’t need to borrow a dime.

At this point, Dollarcity is still relatively small compared to its new parent. The new acquisition is only expected to add a couple of pennies per share to fiscal 2020’s net earnings, increasing to closer to a dime per share in 2021. But over the long-term, the new acquisition has the potential to be even bigger than the Canadian division.

There are approximately 100 million people in Peru, Colombia, and Ecuador. While the average citizen of these nations doesn’t have the disposable income that the average Canadian has, there’s still a sizeable market here, and that doesn’t even include any possible expansions into new markets.

Dollarcity plans to have 600 locations by 2029. That seems ambitious, but I’m confident Dollarama can help its new subsidiary pull it off.

The bottom line

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Dollarama is still an excellent growth company in Canada, with the potential to open hundreds of additional stores over the long term. That, combined with continued same-store sales increases, should ensure the stock’s place as one of the TSX’s top performers.

Add in the Dollarcity potential, and Dollarama’s future just got a whole lot better. It’s that simple.

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