Does Dollarama (TSX:DOL) Stock Have More to Offer After a Strong Comeback?

Description

Dollarama (TSX:DOL), Canada's largest discount retailer, has proven many of its critics wrong after going through a challenging year in which sales growth slowed and the profit margins were squeezed.

But that sluggish period in which its stock plunged about 45% from the all-time high level proved a short-term setback. Dollarama stock is back in demand, as evident from its comeback this year. It has gained more than 50% in 2019, outperforming its peers, on clear signs that the discount retailer has overcome its challenges, and the tactics it's applying at its stores are bringing customers back.

Montreal-based Dollarama, in its most recent quarter that ended on May 5, reported a surprise 5.8% jump in comparable store sales that was more than twice the gain analysts expected.

Dollarama chief executive Neil Rossy has been tweaking his merchandising tactics to keep attracting customers amid a general stall in price inflation in the marketplace. The decision by the company not to hike prices in the face of rising costs is pinching profit margins.

Dollarama says it can offset that squeeze by offering a higher mix of seasonal products, such as garden tools, in the second half of the year. For the current fiscal year, Dollarama is expecting same-store sales to grow between 3% and 4% versus last year. It has suspended its share buybacks temporarily to maintain a comfortable level of leverage.

Is a Dollarama turnaround sustainable?

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. This position has been further strengthened after the chain bought a 50.1% stake in rapidly growing Latin American value retailer Dollarcity this month.

Dollarama, which entered a commercial partnership with Dollarcity in 2013, will pay an estimated US$85-95 million for the majority stake, including US$40-million upfront.

“We consider Dollarama to be a solid operator, with industry leading margins and further growth opportunities in Canada and now Latin America, which justify a premium valuation,” said **Industrial Alliance Securities** analyst Neil Linsdell.

Bottom line

Dollarama stock is regaining its lost ground fast, and it doesn’t seem it will stop here. 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 54% surge this year. Trading around $48.74 a share, this stock is still offering a good value to long-term investors.

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