Can Dollarama (TSX:DOL) Stock Sustain its Turnaround?

Description

Dollarama (TSX:DOL), Canada's largest discount retailer, has had a remarkable turnaround. After remaining under pressure last year, its stock rebounded strongly this year and massively outperformed its peers.

The strength in its stock shows that short-sellers' attacks on this trusted name were unjustified, and the company has a strategy to counter many challenges facing the retail sector.

Montreal-based Dollarama had not had traffic growth in more than a year, but reversed the tide during its most recent earnings report in June, posting a surprise 5.8% jump in comparable store sales. It was more than twice the gain analysts had expected.

Going forward, the big question lurking in the minds of investors is whether this retailer can continue with this strong performance, especially when the economy is coming under pressure and the trade war between the U.S. and China has threatened to increase the cost for North American buyers.

Dollarama's merchandising tactics

In my view, Dollarama is well positioned to grow its sales even if the economy slows. First, the company's chief executive Neil Rossy has been tweaking his merchandising tactics to keep attracting customers amid a general stall in price inflation in the marketplace.

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.

Second, discount retailers such as Dollarama, perform better in a recession or slowing growth environment. The reason is that while cutting back spending on vacations and other luxury items, consumers are highly unlikely to stop buying low-priced, daily-use items, such as storage containers and back-to-school supplies.

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 summer.

Bottom line

Trading at $51.98, Dollarama stock is up more than 50% this year. After regaining its lost ground, it doesn't seem that the company will stop its growth journey 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 this year's surge.

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