Is Dollarama a Good Investment for 2020?

Description

I hate to be the one to say it, but we're now in the final months of 2019. Patio and BBQ season is wrapping up, the kids are back in school, and retail stores everywhere are packed with Halloween candy and yes, even some Christmas fare.

That also means that now is the perfect time to look at your portfolio with a view toward 2020 investments.

Meet the king of Canadian retail

Dollarama (TSX:DOL) is a leader in the Canadian retail sector. The dollar store operator has a network of over 1,250 stores with a presence in every province. Dollarama prices items across several fixed price points, currently ranging from $1.00 to $4.00.

Many of the products that Dollarama offers are bundled together across those fixed price points, which in turn provides a greater sense of value and appeal to shoppers. As a result, shoppers entering a Dollarama store for one item often leave with a cart full of goods.

Dollarama operates in a unique segment of the market that has thus far largely escaped the mobile commerce onslaught plaguing other brick-and-mortar retailers. Part of the reason for that can be attributed to the small, inexpensive nature of Dollarama's goods, which larger retailers still can't ship individually for a profit.

Dollarama, on the other hand, *has* started to branch out online, offering selective items for sale in bulk.

Dollarama is also growing force internationally

Few people may realize this, but Dollarama has a growing presence outside Canada. Dollarama signed a multi-year agreement several years ago with Latin American-based Dollar City.

Under the terms of that agreement, Dollarama was to provide product and merchandising expertise to the chain with the option to purchase the chain outright.

That agreement came to a close earlier this year when Dollarama purchased a controlling interest in Dollar City. Today Dollar City operates 169 stores across El Salvador, Columbia, and Guatemala.

Investors can expect revenues (as well as the upfront payment for the 50.1% share of the company) to appear in the third-quarter financial results later this year.

Strong results

In recent quarters, Dollarama's once-incredible growth has slowed. While part of that can be attributed to steep competition from other low-priced retailers, there are few investors who believed that Dollarama's double-digit growth could persist indefinitely.

That said, Dollarama's recently announced results for the third quarter aren't exactly bad. The company reported a 9% increase in sales to $946.4 million, while comparable-store sales witnessed an uptick of 4.7% over the same period last year.

EBITDA came in at $281.6 million, or 28.6% of sales, reflecting a 3.5% increase over the same period last year. Net earnings for the quarter came in at $0.45 per diluted share, reflecting a 7.1% increase over the same quarter last year.

Should Dollarama be in your 2020 portfolio?

There are two key reasons why I think Dollarama is a great holding moving into 2020 and beyond.

First, there's the dollar-store business model itself. Dollar stores perform best when the market begins to slow. This is due to consumers flocking toward lower-cost retailers to save money.

With many pundits now seeing a slowdown hitting the market within the next year, a defensive investment like Dollarama could be the perfect addition to any portfolio.

Second, there's Dollarama's international presence, which shouldn't be understated. Under the guidance of Dollarama, Dollar City has flourished in the past few years, entering both the Columbian and Guatemalan markets.

There is a strong demand for low-cost retailers in those markets, which are currently underserved. If Dollarama continues to expand its presence there, the results could prove lucrative for investors over the longer-term, thus offsetting any perceived slowdown in the more saturated Canadian market.

In my opinion, Dollarama remains an excellent long-term investment option for nearly any portfolio.

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