Dollarama Inc. (TSX:DOL) Is a Top 2020 Stock to Buy Now

Description

It's not too early to start focusing on the stocks that could power your portfolio in 2020. One top name to consider for the next year's shopping list is **Dollarama Inc.** (TSX:DOL), Canada's largest discount retailer.

The reason I'm quite bullish on this stock's future prospects is that its management is firmly in control of the company's turnaround strategy. With that strength, this discount retailer is also at the right place in the retailing universe.

Let's first talk about the turnaround that the company is trying to achieve after facing cost pressures in early 2018. On that front, there are clear signs that Dollarama is well on track and it's been able to bring back customers who, for a short period last year, showed some reluctance to visit its stores.

In the latest quarterly numbers released last week, its comparable store sales grew strong 4.7%. That outpaced last year's sales growth of 2.6% for existing stores as the company focused its merchandise strategies on enhancing revenue.

"We are very focused on stimulating traffic and increasing basket size and are pleased with consumer response to date," CEO Neil Rossy told analysts during the conference call.

Rossy said Dollarama has been expanding its product offering where possible and updating selection all the time. It offers more than 4,000 year-round products and more than 700 seasonal ones.

Traffic at stores remains strong

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.

In its outlook, Dollarama raised its guidance for comparable store sales growth for the full year to a range of 3.5%- 4.5% compared with earlier expectations for between 3%-4%. But it's no secret that Dollarama will get affected if the U.S.-China trade war escalates and doesn't get resolved.

In my opinion, that possibility is very slim. Sooner or later, both global powers will find a way to get going because the cost of disruption is too high for both consumers and the economies.

On the strategy side, I think Dollarama is well positioned to grow its sales even if the economy slows. 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.

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.

Bottom line

For investors who want to hold a quality retailer in their portfolio for 2020, Dollarama is certainly a stock to buy. 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. Even after a 50% rally, its stock has more room to go.

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Date
2025/07/05
Date Created
2019/09/23
Author
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