ALERT: This Buy-and-Hold Forever Stock Is Now on Sale

Description

Many investors have a simple strategy that I believe has a lot of merit.

They identify 30 or so stocks that they must own, the kinds of companies that have everything you want to see in an investment.

They then patiently wait until one of these stocks goes on sale, and then more is added to the portfolio. The plan is repeated for decades and then retirement is a breeze.

In other words, these investors find long-term winners and add to them when they're on sale. It's kind of like loading up on prime rib when it's on sale at the grocery store.

One such stock has recently gone on sale. And like a screamin' deal on steaks, you'll want to snatch this one up fast because I don't think it'll be on sale for long.

The opportunity

Dollarama (TSX:DOL) has been one of Canada's best-performing stocks since its 2009 IPO. Including reinvested dividends, shares are up a jaw-dropping 1,367.95%. That translates into a 30.25% annual return, which is enough to turn a $10,000 initial investment into something worth $146,772.

Remember, it did all that in just a decade.

One of the things I really like about Dollarama's business model is that it's pretty darn simple. The company's smaller store footprint allows it to focus only on items with good margins.

It can expand quickly because it made the decision to rent all its real estate. And it continues to have several avenues of growth, including expanding same-store sales, opening new stores, and further expanding into Central America with its Dollar City acquisition.

Every now and again, Dollarama posts lackluster numbers and the stock craters. Last week's announcement of the company’s third-quarter results was the latest stumble, with investors disappointed by the company’s quarter.

Although revenue, same-store sales, and profits were all up compared to the same period last year, investors were disappointed with weaker EBITDA margins, lower than expected earnings growth, and decreased same-store sales guidance for the company’s next fiscal year.

Dollarama shares fell almost 10% on the news, hitting a low below $45. But don’t fret, long-term investors; this could turn out to be the buying opportunity of the year.

Even after analysts lowered their expectations, the stock is still projected to earn $2.05 next year, compared to expectations of $1.77 per share this year.

That translates into 15.8% year-over-year earnings growth, which is really hard to find in today’s market. And investors can get exposure to that for just 22 times forward earnings, which is just slightly higher than the average North American stock’s valuation.

In other words, Dollarama offers investors a compelling value today — even at what appears at first glance to be a slightly elevated multiple.

The bottom line

Dollarama is an excellent company with a mountain of growth potential still ahead of it. In theory, it can take its business model and replicate it around the world, but that’s years down the road.

It still has enough opportunities here in Canada to keep it busy for years, and Dollar City also gives investors an interesting expansion option.

The time to buy is today, before the rest of the bargain hunters get in. Take advantage of this stock sale because you just don’t know when the next one will come along.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:DOL (Dollarama Inc.)

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Date
2025/09/09
Date Created
2019/12/10
Author
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