Dollarama (TSX:DOL) Stock Still Has Plenty of Growth Ahead

Description

Dollarama (TSX:DOL) has been an incredible investment. Since 2009, shares have increased by more than 1,300%. Over the same period, the **S&P/TSX Composite Index** rose by just 50%.

In recent years, the stock price gains have been tempered. Shares currently trade at 2017 levels. The market seems to be indicating that the days of rapid growth are over. I wouldn't be so sure.

This is the proof

Dollarama knows how to make a bunch of money, just look at what it's achieved over the past few decades. After opening its doors in 1992, the company quickly scaled to 585 locations in 2009. In 2015, it opened its thousandth store. In 2017, it set a target to open 1,700 stores in Canada by 2027.

The stock price soared during this entire period, making Dollarama one of the most successful retailers in Canadian history. Over the last decade, its posted *10 times* the return of another Canadian icon, **Canadian Tire**.

Dollarama has proven that it has a recipe for success, but its own success has become its biggest enemy. With only 37 million people, growth in Canada was always going to be limited. Following years of growth, the company has already opened stores in the vast majority of local markets, especially the ones of highest value.

Yet the days of growth *aren't* over. In fact, they may have only begun.

Rinse and repeat

Dollarama has the recipe for success. Now all it has to do is replicate that in other markets.

Last year, I wrote how Dollarama stock has a hidden growth opportunity that few recognize.

"In 2013, it entered into an agreement with Dollar City to share business expertise and sourcing services essentially at cost, meaning that little to no profit will be made," I said. "What's in it for Dollarama? Critically, the company has the option of acquiring a 50.1% interest in Dollar City starting in 2020. The market may have forgotten about this potential growth driver, but you shouldn't."

Over the next six months, shares rose by more than 50%, triggered by the company exercising its right to buy a majority interest in Dollar City.

But what's so special about Dollar City? In many ways, it's the exact same company as Dollarama, with one key difference: it's located in rapidly growing Latin America. Last year, it grew its store count by nearly 50%, expanding in El Salvador, Guatemala, and Colombia. In 2019, Dollarama revealed that it plans to scale to more than 600 locations by 2029.

Eventually, don't be surprised to see Dollarama take full ownership of Dollar City. The long-term growth potential should match or even surpass what Canada offers. And why stop at Latin America? Opportunities abound in South America, Europe, Asia, and Africa, where the discounting retail model faces less competition.

Dollarama stock now trades at 25.7 times trailing earnings, close to a multi-year low. From 2015 to 2018, shares were often priced above 32 times earnings. As the market starts to appreciate the Dollar City opportunity, don't be surprised to see a quick valuation reversion, suggesting 20% upside in 2020.

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