Looking for Growth AND Safety in 2020? Try This 1 Remarkable Stock

Description

Looking for something safe and with return potential to put your money into? Many experts consider retail stocks a volatile investment option. However, with a stock like **Dollarama** (TSX:DOL), if a recession comes, people will want to purchase lower-priced goods.

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A retail stock can also prove to be a great growth stock. Dollarama has been the second-largest discount retail chain of Canada for the last 11 years. Like any volatile stock, it has experienced some significant highs and lows in the previous couple of years.

Nonetheless, its five-year return of 135.71% suggests that it is a good growth stock. But will it be an excellent addition to your investment portfolio in 2020? Let's find out.

Bullish analysis

Dollarama stock has been experiencing constant growth and recovery since the significant dip of early 2019. Its stock price has witnessed a 29% increase since then. The management's firm control on the turnaround strategy and future expansion plans suggest that this recovery/growth will continue its run this year.

Contrary to the predictions of retail experts, Dollarama's store sales grew by 5.3% in the third quarter of 2019, which was 1.46% more than what was expected. The consecutive good quarterly performances have shored up the management's confidence, which is now planning to expand on both brick-and-mortar and online fronts.

Last year, Dollarama also acquired a 50.1% stake in a promising Latin American retailer chain Dollarcity. This acquisition has and will continue to synergize the company's value. As per the estimates, the acquisition could add five to seven cents to the EPS of Dollarama in the next fiscal year.

Bearish analysis

The same-store sales growth of Dollarama has been affected by competitors like Dollar Tree in the last couple of years. On top of that, the management has already fiddled with price points many times to offset the revenue drop caused by reduced customer traffic.

Dollarama's CEO has also hinted at persisting with the same price structure for this year. In this context, it won't be easy for Dollarama to increase its same-store sales. Dollarama sources the majority of its products from China, and mounting shipping costs is another factor that can hit the retailer's revenue in the next fiscal year.

Many experts also believe that Dollarama stock is somewhat overvalued. It is being traded at 23 times forward P/E with the trailing P/E ratio of 26 times. These P/E ratios suggest that the stock has been continuously missing the expectations of investors.

By keeping the volatile nature of retail in mind, this continuous overvaluation can also result in the implosion of Dollarama stock.

Summary

Both bearish and bullish analyses highlight some crucial points about Dollarama stock. However, if we infer the above discussion, then it looks like in 2020, Dollarama might not see the growth it witnessed last year. However, given its compelling customer proposition and substantial retail footprint, Dollarama should remain a good long-term growth stock that should protect you during a recession with steady revenue numbers.

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