Is Dollarama (TSX:DOL) Stock Headed for Boom or Bust in 2020?

Description

Dollarama (TSX:DOL) has been an up-and-down stock for the past few years, as questions surrounding its growth have weighed on its share price. The company's same-store sales numbers are of key importance to investors, as they're a gauge into how well the business is doing. In 2017, when the stock was soaring, its growth rate was still going strong at more than 6%. However, things have slowed since then down to less than 5%. The declining growth rate is the key reason the stock hasn't been doing well over the past two years, falling 15% during that time.

The question for investors is, where the stock will go in 2020? Concerns of a downturn in the economy along with political uncertainty involving China could be a couple of factors that weigh on Dollarama's results this year. Let's take a look at whether the stock is a buy or not this year.

Why the stock could have a strong year

Retail is hurting. We've seen it from the recent store closures involving Bench, Forever 21, Carlton Cards, and many others. Retail just isn't a friendly place these days, and it's scared many investors away. But one store that may be an exception to that is Dollarama. The dollar-store chain isn't too specialized that it focuses on a niche, and its low-priced items offer consumers a disincentive from buying online, especially when a minimum order needs to be reached for free shipping.

With fewer retailers, Dollarama could see more activity and actually benefit from it. Not only will it open more spaces to move into, but it can make the company's existing stores more prominent as well. The liquidation sales from retailers that could also help Dollarama source more products.

Another reason Dollarama could see a strong year is if the economy starts to cool off. If that happens and pricing plays more of an important role for consumers, that could lead many people to make more of their purchases at dollar stores.

The risks facing Dollarama today

One of the biggest dangers for Dollarama is if there is a trade war involving China. Even though Canada is not directly impacted, it still could harm Dollarama. In September, CEO Neil Rossy stated that it impacts the supply of Chinese-sourced products and it "has an impact on the retailers of the balance of the world, whether its Europe or Canada or everywhere else, because we all benefit from each other's creativity and productivity."

Although he downplayed the impact on Dollarama in the short term, he did concede that the longer the trade instability goes on, the worse it will be for the company. Finding new products is important for Dollarama to be able to generate growth, and an unimpressive year could spell trouble for the stock.

Should investors buy Dollarama today?

While there will be growth opportunities for Dollarama to expand, it will be for naught if it doesn't have the products it needs to generate strong sales numbers. Until tensions between China and the U.S., and even China and Canada, cool off, investors may want to wait before buying shares of Dollarama. At a multiple of more than 26 times earnings, the stock is just too expensive given the growth challenges it faces today.

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