Buy Alert: This Canadian Stock Is About to Go Global

Description

With 37.6 million citizens, Canada isn't the largest country in the world, but it's still big enough to spawn multi-billion dollar businesses.

Consider **Dollarama Inc** (TSX:DOL). In 2009, the stock price was just $3, not even enough to warrant a $1 billion market cap. Today, shares are above the $40 market, assigning the company a $13 billion valuation.

Yet Dollarama stock has levelled off in recent years, with shares trading at mid-2017 prices at writing — a slowdown that makes sense. Over the last decade, Dollarama has built hundreds of new stores and now has a presence in every major Canadian market, resulting in few opportunities for additional expansion.

Despite the flat share price, profits and cash flow continue to rise, resulting in an attractive valuation. Analysts expect the company to earn $1.77 per share in 2020, meaning that shares trade at 23.7 times forward EPS, a significant discount to its historical valuation.

If the days of major growth are behind it, this discounted valuation is deserved. But that's not the case! The market appears to be missing a hidden growth opportunity that should accelerate sales and earnings.

Establish the recipe

Dollarama opened its first store in 1994. By 2009, it had 585 stores in 10 provinces. It crossed the 1,000 store mark in 2015, eventually revealing its goal to hit 1,700 stores by 2027.

It's hardly surprising that Dollarama has grown so quickly. Today it's the largest national dollar store chain in Canada. Its 1,271 stores average just 10,000 square feet in size, yet gross $3 million per year.

The company's biggest advantage is its direct sourcing model. Rather than rely on thousands of resellers and distributors, this cuts costs, ensures better quality and transparency, and gives the company exclusive rights over some items.

Greater scale, better products, and lower costs have been a winning combination for customers, so why not replicate this model in other countries with little to no direct competition?

That's exactly what Dollarama is aiming to do with Dollar City, a subsidiary in Latin America that it controls.

Rinse and repeat

In many ways, Dollar City is in the same position that Dollarama was in two decades ago. Namely, there are tens of millions of potential customers looking for a reliable discount retailer that has a national presence.

The existing business also has direct parallels. The merchandise mix is similar and the sourcing mix is a near match. Even the pricing range is the same.

It's not difficult to imagine Dollar City as the new growth platform for Dollarama. All management has to do is repeat its wealth-generating strategy that has produced spectacular shareholder returns for more than two decades.

Dollarama expects to hit 600 Dollar City stores by 2029. Looking at the meager upfront investment per store of $700,000, the payback period should be rapid.

Latin America has millions of families entering the middle class each year, all of which are prime customers for Dollar City.

With a valuation in line with the rest of the market, investors seem to believe that Dollarama's growth days are over. Over the next decade, growth in Dollar City alone should prove these pessimists wrong, resulting in profits for patient shareholders.

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