



\$1,000 Invested in Dollarama's (TSX:DOL) IPO Would Be Worth This Much Now

Description

Investing in high-quality growth stocks is a sure-shot way to build wealth. One such company that has managed to beat broader market returns since it went public is **Dollarama** ([TSX:DOL](#)).

If you had invested \$1,000 in the Dollarama IPO back in 2009, it would have grown to \$12,800. If you consider dividend reinvestments, the \$1,000 IPO investment would now be worth around \$14,000. Comparatively, the S&P 500 would have returned just over \$3,100 in the same period.

Dollarama stock has gained 19.8% in the last 12 months

Dollarama stock continues to surge ahead. In the last year, shares rose close to 20%. While past returns mean nothing for an investor looking to enter the stock, it should provide them with confidence given the company's stellar performance.

Dollarama is a Canada-based holding company. As the name suggests, it operates dollar stores, and Dollarama now has over 1,200 stores in Canada with an average area of 10,275 square feet.

These thrift stores offer a range of consumer products, general merchandise, as well as seasonal items. The company's stores are located in metropolitan areas, mid-sized cities, and towns.

Dollarama's growth story remains intact

In the fiscal third quarter of 2020, ended in November, Dollarama sales rose 9.6% to \$947.6 million. Comparable store sales were up 5.3%, while EBITDA rose 4.3% in Q3. Dollarama opened 21 new stores, bringing its total store count to 1,271.

For fiscal 2020, company management had forecast to open between 60 and 70 stores and is on track to meet this target. All stores are company owned, helping Dollarama to provide a consistent shopping experience.

The company's press release states, "Our strategy is to grow sales, operating income, net earnings and cash flows by expanding the Canadian store network through the opening of 60 to 70 net new stores annually and by offering a compelling value proposition on a wide variety of merchandise to a broad base of customers. We continually strive to maintain and improve the efficiency of our operations."

In 2019, Dollarama acquired Dollarcity to gain a foothold in price-sensitive markets of Latin America. Dollarama paid \$122 million [for a 50.1% stake in Dollarcity](#). The latter has 104 locations in Columbia, 58 in Guatemala, and 48 in El Salvador.

Columbia is critical for Dollarama, as the country is one of the fastest-growing economies in Latin America. Dollarama's entry into these countries will help the company sustain its growth rates given the increase in the purchasing power of the populace, the growing middle class, and a rapidly expanding population.

A look at Dollarama's valuation

Dollarama is valued at \$13 billion in terms of market cap and has an enterprise value of \$16.93 billion. It has a market cap-to-forward sales ratio of 3.4 and an enterprise value-to-forward sales ratio of 3.83.

Analysts expect Dollarama to increase sales by 6.8% to \$3.79 billion in 2020 and 7% to \$4.05 billion in 2021. Comparatively, its earnings per share are expected to grow by 14.1% in 2020 and 11.4% in 2021.

Dollarama stock is trading at a forward price-to-earnings multiple of 20.6, which is reasonable, considering the company's growth rates. Analysts tracking Dollarama have a 12-month average target price of \$49.1, which is 18% higher than the current trading price.

Dollarama is a company that is recession-proof with robust growth rates and attractive valuation multiples. Investors can look to buy the stock at every major correction to build long-term wealth.

CATEGORY

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