
Buy Dollarama (TSX:DOL) Stock on the Dip or You'll Be Kicking Yourself Later!

### Description

**Dollarama** (TSX:DOL) has fallen into yet another tailspin, with shares pulling back 22% from August 2019 52-week highs and 28% from January 2018 all-time highs. As you may know, I've been quite critical of the once market darling in the past before Dollarama stock shed nearly half of its value from peak to trough back in 2018.



I'd warned investors of the headwinds and the unreasonable valuation at the time. And to this day, many of the same headwinds that I rang the alarm bell on are still in full force. Despite the risks associated with a name that some believe is transitioning from growth to value, the company has made efforts to lengthen its growth runway by looking beyond the confines of Canada.

## Could going global be the answer to Dollarama's growth woes?

With a 50.1% majority stake in Latin American discount retailer Dollar City, Dollarama has a front-row seat to a lucrative market that could allow Dollarama to continue to command the impressive growth numbers it's posted in the past. Still, there's no guarantee that Dollarama's management team will be able to replicate the success it had in the Canadian market over the years, as competitive forces look to apply further pressures on the company's gross margins.

In any case, there's a cloud of uncertainty that's hazing the dollar store giant's future, and that's a significant reason why the stock isn't commanding a hefty +30 times earnings multiple today, months after the company reported another quarter of weakness.

Given the uncertainties and headwinds that still exist, Dollarama deserves to be punished, but after the latest sustained pullback, I think the punishment has gone too far. You see, in spite of the long-lived headwinds, Dollarama is still in a position to reignite growth. As such, I don't think the stock deserves a magnitude of multiple compression that would come with a transitioning a company from growth darling to stalwart.

Dollarama isn't a stalwart, as it's going global to retain its growth multiple. The company still doesn't appear to have answers to the margin headwinds, though. And because of that, I don't think Dollarama will ever justify a multiple as rich as it was during its prime. Moreover, foreign markets, while growthier, can be riskier, which could be another subtle source of multiple compression.

## Still risks on the table

Dollarama's main headwind at this juncture, I believe, is the competitive pressures in the domestic market that will make it hard to sustain margin expansion in conjunction with meaningful same-store sales growth. In prior pieces, I've urged cautious investors to wait until Dollarama could get sustainable growth, and while going global could help Dollarama return to the growth king it was, investors should brace for excessive volatility with earnings (Q4 fiscal 2020) on tap for March 26.

In any case, Dollarama is no longer an expensive stock, especially after its 2% single-day decline on Thursday. The stock trades at 17.4 times next year's expected earnings, which is a fraction of the multiple when I strongly advised investors to take profits on the stock.

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joefrenette