Dollarama (TSX:DOL) Stock: Buy on the Market Correction for Massive Growth

### Description

**Dollarama** (TSX:DOL) stock has been an incredible Canadian growth story. The company had its initial public offering in 2009. In the past nine fiscal years, it compounded earnings per share by a whopping rate of 21% per year!



The stock has corrected about 27% from its August 2019 high of $52 to $38 per share at writing. There are good reasons to believe it's a great buying opportunity today. The stock is attractively priced, and there's growth potential ahead.

First, here's an overview of Dollarama's success so far.

## Dollarama's formula for success

Dollarama's decade of success came from repeat visits from shoppers seeking value from the value retailer chain that offers a wide assortment of consumable products, general merchandise, and seasonal items at select, fixed price points up to $4 on its online and brick-and-mortar stores.

The comparable store sales growth of 5.3% for the last reported quarter was outstanding against last year's growth of 3.1% in the comparable quarter and its North American peers' growth of less than 3%.

The strong comparable store sales growth "consisted of a 2.8% increase in average transaction size, driven in part by an increase in the number of units per basket, and a 2.4% increase in the number of transactions," as described by the press release.

Both metrics suggest that Dollarama is making good selections of products to attract consumer spending.

Moreover, the company has been able to expand its operating margin from about 12% 10 years ago to 22% recently. It's going to be difficult to expand margins in its Canadian operations, as the company has already greatly improved its efficiency.

Another growth driver for Dollarama is its increasing store count. In about five years, it increased the number of stores by 45% to 1,271. It added about 65 net new stores in the past fiscal year alone.

## Recent results

In the last quarter that ended on November 3, 2019, Dollarama reported sales of nearly $948 million (an increase of 9.6% year over year), operating income of almost $212 million (up 3.7%), and net earnings of more than $138 million (up 4.9%). Earnings per share increased 10% to $0.44 due to a lower share count.

Year to date (first nine months of the fiscal year), Dollarama reported sales of $2.7 billion (an increase of 9.4% year over year), operating income of $602 million (up 3.3%), and net earnings of $385 million (up 3%). Earnings per share increased 7% to $1.21 from a share count reduction of 3.9%.

## Dollarama stock is attractive

After the 27% selloff from its high, Dollarama stock trades at about 21.5 times this year's estimated earnings and 18.9 times next year's estimated earnings. This is against a three- to five-year estimated growth rate of about 10-11%.



At about $38 per share at writing, Dollarama stock trades at a meaningful discount of 20% from the 12-month average analyst price target of $47.80, which also represents near-term upside potential of 25%.

## International growth

As its second platform for growth, in August 2019, Dollarama acquired, for an estimated cost of $122.1 million, a 50.1% controlling interest in Dollarcity, a value retailer in Latin American with 210 stores in Colombia, El Salvador, and Guatemala.

In aggregate, the population in these geographies almost double Canada's. Moreover, they have a much higher population density (11 to 78 times that of Canada's). Therefore, the acquisition can propel Dollarama for its next leg of growth on top of the continued growth it's experiencing in Canada.

## Investor takeaway

Quality value retailer Dollarama is attractively priced for investors to start building a position in for long-term growth. There are no boundaries for consumers seeking quality merchandise at value prices. Its latest expansion into Latin America should be a growth driver because its offerings are at lower price points of up to $3 (versus $4 at Dollarama's Canadian stores). Additionally, it's a recession-proof stock you can hold through market downturns.

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**Date**
2025/07/30
**Date Created**
2020/02/26
**Author**
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