Why Buy Dollarama (TSX:DOL) Stock Amid the Market Selloff?

Description

The COVID-19 outbreak has wreaked havoc on the global indices. Major financial markets across the world nosedived, as an increased number of countries report new cases of the coronavirus. However, the slide in the equities presents an excellent opportunity for long-term investors to buy fundamentally strong stocks. A fundamentally sound company will bounce back strongly as the market recovers and investors' sentiment improves. Moreover, the likelihood of generating strong returns is higher when we buy solid stocks on the dips.

Dollarama (TSX:DOL) is one such fundamentally strong company that is likely to bounce back strongly. The company's value proposition makes it resilient to economic doldrums. Moreover, multiple growth catalysts make it an attractive bet for the long term.

Why bet on Dollarama?

Dollarama's unique defensive and growth nature makes it an attractive long-term buy. The company's key operating metrics look solid. Dollarama's revenues have grown at a CAGR of 12.1% in the past eight years. Meanwhile, comparable sales have increased at an average of 5.8% over the last 10 years, which is exceptional. Furthermore, Dollarama's EBITDA and net earnings have grown at a CAGR of 18.1% and 21.3%, respectively, during the same period. Dollarama's store count is increasing steadily, growing at a CAGR of 8.2% in the last eight years.

Dollarama's store count is about 5.5 times more than its next competitor. Being Canada's largest dollar store chain and having a presence in all the 10 provinces, Dollarama is likely to benefit from its higher store base and strong value proposition. Its broad assortments of everyday goods and multiple fixed price points of up to $4 make it popular among the value-driven shoppers.

The company continues to expand its store network across the country and has launched an online store for bulk sales, both of which augur well for growth in the long term. Also, Dollarama acquired a 50.1% stake in Latin America's value retailer, Dollarcity, which adds another growth platform.

On the margins front, Dollarama benefits from its low operating cost model and favourable mix.

Dollarama’s broad assortment of products comprises of both private labels as well as national brands, which supports margins. Meanwhile, direct sourcing and a low-cost supplier network bodes well for margin expansion.

What’s in the offing?

Dollarama stock has corrected nearly 10.5% since the beginning of the year. Broader market sell-off and the fear of supply-chain disruption took a toll on its stock price. Notably, Dollarama sources nearly 50% of its low-cost merchandise from across 25 countries, with China as the primary supplier. The impact of the virus on production flow in China could delay shipments and result in higher product landing costs for the company.

Despite the near-term hiccups, Dollarama remains well positioned to benefit in the long run. Further, China has managed to significantly lower the epidemic statistics, which indicates less disruption in the production flow.

Management’s mid-single-digit comparable-sales growth projection combined with incremental sales from new stores will accelerate the revenue growth rate in 2020. Meanwhile, earnings are likely to benefit from margin expansion.

Sales leverage, in-store productivity savings, and favourable product mix will drive Dollarama’s profits and, in turn, its stock price higher.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/16
Date Created
2020/03/16
Author
amitsingh