PRICE ALERT: Dollarama (TSX:DOL) Stock Surges 43%

Description

Dollarama (TSX:DOL) stock is on a tear. Since bottoming in March, shares have ripped higher by more than 40%. Other retailers like **Canadian Tire** have experienced a similar rise.

For many investors, the rise is confounding. We're in the midst of a severe recession. Consumer spending is dramatically lower across many categories. Jobless claims continue to mount, albeit at a slower pace.

I've argued before that Dollarama is a terrific long-term investment, but should you buy shares after the dramatic rise?

Get on this train

Last month, I wrote that Dollarama stock is your best bet right now. Shares surged following that article, but what made this stock so compelling?

"Following the 2008 financial crash, retail spending experienced a structural shift — a transition that eventually became known as the trend-to-thrift," I explained. "Here's the thing: the trend-to-thrift thesis is about to happen all over again, but this time, the trajectory could be much stronger."

With the Canadian economy entering another deep recession, the trend-to-thrift thesis should take on mythical proportions. People will still buy food, clothing, and other necessities, but a huge share of this spending will shift to discount retailers.

As the largest discounted retailer in Canada, Dollarama is positioned for success. The company launched in 1992 with a single location. In 2009, it had nearly 600 stores, providing enough scale to capitalize on that period's trend-to-thrift phenomenon. The company benefited so much that it went public in October of 2009, near the nadir of the crisis.

Rapid growth continued. In 2012, the company reimagined itself as a broad-based discount retailer, introducing multiple new price points and expanding its inventory lineup. In 2015, it crossed the 1,000 store mark. Today, there are roughly 1,200 locations.

Should you buy Dollarama stock?

There’s no doubt that this company is benefiting from strong secular tailwinds. It’s simply in the right place at the right time. But there’s also more to this story than macroeconomic shifts.

Since its founding, Dollarama has focused on a direct-purchasing model. Instead of sourcing inventory through wholesalers, as most competitors do, the company engaged directly with manufacturers. Today, roughly half of its merchandise is sourced directly.

This model remains differentiated, and its benefits are clear. Dollarama can secure price points that the competition can’t match, splitting the savings with customers. The retailer can also secure exclusive product arrangements, meaning its peers couldn’t emulate the offerings even if they wanted to.

Dollarama stock surged 43%, as global stock markets rebounded from the depths of the COVID-19 correction. Many analysts are reasonably calling for another correction. On some metrics, the current stock market is frighteningly expensive.

According to legendary investor Jeremy Grantham, “The market’s P/E level typically reflects current conditions. Markets have historically loved fat margins, low inflation, stability and, by inference, low levels of uncertainty. This is apparently one of the most impressive mismatches in history.”

Even if markets continue to gyrate, Dollarama stock remains a suitable option for long-term investors. The trend-to-thrift movement will persists for years, even decades. Even after the run, DOL shares look reasonably priced over the long haul.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Investing

Date

2025/08/24
Date Created
2020/06/07
Author
rvanzo