Dollarama (TSX:DOL): Competitive Leads, Risks, Future Growth, and More

Description

The discount retailer **Dollarama** (TSX:DOL) was one of the top gainers in the last decade, returning more than 1,000%. It's indeed a remarkable performance despite being in a comparatively slow-growing industry.

The company has seen good days and bad ones, and it has managed to emerge even stronger in all these years. Let's discuss how it looks for the future and is it a good investment for the long term.

A vast presence…

An extensive presence in Canadian province is a big plus for Dollarama. It owns and operates around 1,300 stores in the country, with average annual sales of $3 million. It offers a broad range of everyday consumer products, general merchandise, and seasonal items at low prices.

Interestingly, Dollarama has 2.5 times a greater number of stores than four of its pure-play competitors combined. Direct sourcing expertise is another advantage for Dollarama, which is backed by its longstanding relationships with low cost suppliers. Its unique value proposition mainly differentiates the retailer from peers.

A $14 billion retailer, Dollarama has seen a consistent increase in its financial performance in the last five years. In this period, its revenues grew by 13%, while its net income rose by 9% compounded annually.

Competitive advantage

In the last quarter, which mainly impacted business activities due to the lockdowns, Dollarama showed notable resilience and managed a decent revenue growth. Its improved margins in the last few quarters also paint a rosy outlook for future growth.

Dollarama continues to weigh on increasing its store network to drive future growth. It plans to increase the store count to 1,700 by 2027. Notably, Canada is still an underpenetrated market in terms of retail stores as compared to the U.S.

Dollarama bought a 50.1% equity interest in Dollarcity—a Latin American value retailer last year. It has 232 stores and plans to grow it to 600 by 2029. The synergy benefits will likely bode well for Dollarama's earnings growth for the next several years.

Risks for Dollarama

One major risk for Dollarama is the exchange rate volatility. It sources a major chunk of its products from China, and a higher U.S. dollar could be detrimental to its net earnings. Second, the ongoing economic troubles driven by the pandemic might not hamper Dollarama's topline, but it will most likely affect the rollout of new stores—its growth engine.

If one had invested $10,000 in Dollarama 10 years ago, they would have accumulated $86,000 today.

Dollarama stock is currently trading close to its early 2020 levels at the moment. During the epic COVID-19 broad market crash in March, DOL stock fell to multi-year lows, albeit managed to recover relatively faster.

The Foolish takeaway

The stock is currently trading 26 times its next year's earnings estimates. While that's still lower against its historical average valuation, it might appear expensive from a broader market perspective.

However, Dollarama is still an attractive bet given its earnings stability and less volatile stock movements. It is well placed to perform in economic downturns and even in booming times.

Its widespread network of stores, matchless value proposition, and strong financial performance will likely continue to reward its shareholders.

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Date
2025/07/27
Date Created
2020/06/29
Author
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