Is Dollarama (TSX:DOL) Stock a Buy After its Earnings Beat?

Description

Dollarama (TSX:DOL) is Canada's leading value retailer. Its market capitalization is $17 billion. And its fiscal Q3 2021 revenue was a whopping $1 billion. This is a reflection of a few things. But mainly that Dollarama has been a trusted source of low-priced essential goods for Canadians in this crisis.

This leading value retailer has even more going for it. Namely, that It has been a leader in the stock market. For example, Dollarama stock has easily blown past pre-pandemic levels. Also, Dollarama is a dividend stock with an impressive dividend-growth history. It is an interesting and awe-inspiring rise. This retailer that was deemed an "essential" business is skyrocketing.

Dollarama shareholders have amassed additional wealth by owning the stock. But is Dollarama stock still a buy after its earnings beat? Let's check it out.

Dollarama raises its dividend

A company's dividend is one of the things to watch. Does the company return cash to its shareholders? What is the track record of this?

We have seen that Dollarama has a good track record in this regard. Since 2011, Dollarama's dividend has grown at an average annual rate of 12%. This is a pretty stellar track record, especially for a retailer. I mean, retailers face a notoriously cyclical industry. This is a testament to Dollarama's strength.

Dollarama stock beats the rest

In 2020, the stock market has been mixed. It's been a disaster for some and a jackpot for others. Needless to say, it has been good to Dollarama stock. Its 23% return compares very favourably with the TSX, which is up a mere 4%.

So, what has driven this outperformance? And can this be maintained as we head into 2021? Well, Dollarama’s business model has certainly driven this outperformance. As a discount retailer, Dollarama has its pulse on the consumer. Its buying power allows the company to source its products on the cheap. Its widespread locations across Canada allows it to reach the consumer. Lastly, its appeal to value is right in line with where the demand lies. And this demand is sticky. It is the last to fall in the retail world.

Why Dollarama stock is a buy today

Dollarama is a buy today for a few reasons. First, I expect commercial real estate prices to fall in 2021. While Dollarama is handling this crisis well, others are not. Real estate values will decline, in my view. A countless number of retail spaces will be vacated in the next while. Some of these vacated spots may be prime spots that Dollarama was hoping for. As management stated on the call, they are studying this and following it closely.

Also, because of this crisis, Dollarama got a deal on its purchase of Dollar City. The price was revalued based on the short-term changes in Dollar City’s revenue. But I only care about the long term. And the long-term outlook for Dollar City has not changed. This is key. The convenience and strong value proposition offered by Dollar City and Dollarama continue to bring shoppers in. Dollarama just got a deal.

Motley Fool: The bottom line

In closing, I would like to mention that Dollarama continues to be a good “corporate citizen.” Through this pandemic, Dollarama increased wages by 10%. And now, the company announced that all employees will receive a gratitude bonus.

This pandemic has provided many obstacles. But Dollarama has been relatively unscathed. This retailer can therefore be expected to continue to thrive.

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