



Dollarama Stock (TSX:DOL): 3 Quotes Investors Should Hear

Description

Dollarama Inc. ([TSX:DOL](#)) stock is [continuing to approach all-time highs](#). Even the covid pandemic crisis has not stopped Dollarama. This momentum is based on many things. But mostly it is the result of Dollarama's superior value proposition for consumers.

Investors are happy with Dollarama stock. It has skyrocketed 22% in 2020. It's one of the best performers. And the momentum continues. But there are some headwinds that investors should hear about.

Dollarama's momentum remains strong in Q4

In case you missed Dollarama's third-quarter result, here it is in a nutshell. Sales increased at a double-digit rate. Gross margins were industry-leading. And earnings blew past expectations. Dollarama is a key provider of essential goods during this pandemic. But consumers are relying on Dollarama for seasonal and festive purchases as well. This retailer is grabbing a hold of a new customer base.

On Dollarama's earnings call, there were many notable comments about Q4. For example, the momentum is continuing. Basket size remains large compared to pre-pandemic levels. And traffic continues to pick up.

This continuing momentum has resulted in increased cash flows. In turn, this has lowered Dollarama's debt ratios. Finally, this has given management the confidence to restart its stock buyback program. Dollarama will restart it by the end of this year despite the fact that the stock is trading at all-time highs. It's a reflection of management's confidence in the business. It's a vote of confidence in the value of the stock. Investors should be encouraged by this.

Dollarama signals cost pressures are coming

Now I have to bring a negative spin to Dollarama's outlook. This negative spin is about 2021. The problem is that management expects cost pressures to mount. In fact, they're already seeing price

pressure on raw materials. We should expect inflation and cost pressure in 2021. Suppliers and shippers will see rising costs. Even foreign exchange will be a drag against Dollarama. In the end, this may mean that prices will be marked up. Increased prices might have a negative impact on demand.

Also, sourcing from China has become very difficult. COVID-19 has kind of brought that country to a standstill – or has at least slowed it down measurably. Travel to China is totally impractical given quarantine regulations. And new ideas out of China are at a low. [The focus is on COVID-19.](#)

Snatching up market share in Latin America

Dollarama's acquisition of Dollar City is moving along well. In fact, Dollar City now has 240 stores. Dollarama booked \$4 million in equity earnings from Dollar City. Looking ahead, we can expect continued expansion into Latin America. New stores are being opened. For example, eight stores were opened in Columbia in the last quarter. Also, Peru will see its first Dollar City store open next quarter. This new market is expected to be as robust as Columbia.

The consumer profile in Latin America is very conducive to Dollar City. Brand awareness is increasing. And favourable trends continue. The initial target was for Dollar City to have 600 stores by 2029. Dollarama will update this target as the situation unfolds. Needless to say, Dollar City will be a strong growth driver for Dollarama.

Motley Fool: the bottom line

Dollarama stock is a star performer in 2020. Investors still have a lot to be excited for. The long-term outlook remains strong. And Dollarama continues to perform operationally. But investors should be aware of some headwinds. Cost pressures in 2021 might take a bite out of Dollarama stock. And right now, the stock is very expensive. It might therefore be a good time to take some profits. Retail stocks are cyclical stocks after all.

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