



Should You Buy Dollarama (TSX:DOL)?

Description

Dollarama ([TSX:DOL](#)) is the largest dollar store in Canada. Unlike many of its retail peers, Dollarama has so far managed to escape the retail apocalypse brought on by e-commerce behemoths. Additionally, the company has also fared much better than most retailers during the pandemic. This has led many would-be investors to contemplate whether this is a good time to buy Dollarama.

Let's try to answer that question.

The appeal of a dollar store

Dollar stores are interesting investments. On the one hand, they are retailers, selling a vast array of goods. In the case of Dollarama, the company has expanded rapidly to well over 1,000 stores with a presence in every province. To put that aggressive growth into context, back in 1992 the company had just 44 stores, and by 2004 the company had 304 stores.

Since hitting that 1,000-store milestone, Dollarama has continued to aggressively expand. The new target set by management will see the company grow to 1,400-1,700 stores within the next six years. During the current fiscal year, Dollarama has opened 42 net new stores.

Another key point to note is Dollarama's reach *outside* Canada. The company entered a licensing and service agreement with the Latin American chain Dollar City several years ago. That partnership worked well in proving the appeal of Dollarama to customers outside Canada. As a result, Dollarama acquired a 50.1% stake in its Dollar City partner in 2019. Since then, Dollarama has pursued an aggressive expansion of Dollar City, surpassing 200 stores in three countries. Dollarama is targeting that growth to hit 600 stores across Columbia, Guatemala, and El Salvador by 2029.

Speaking of results, in the most recent quarter, Dollarama reported sales growth of 12.3%. Comparable store sales growth came in at 7.1% during the period. Overall, the company earned \$161.9 million, or \$0.52 per diluted share. Those figures alone may justify some investors wanting to buy Dollarama.

A noteworthy point from that recent quarter pertains to dividends. Dollarama currently offers a paltry dividend with a yield of just 0.36%. If anything, the dividend appears like more of a rounding error, at least at first. Dollarama announced a 6.8% bump to its dividend, resuming what was, prior to last year, an annual hike.

Should you buy Dollarama?

Dollarama is an intriguing investment option. The company has a growing network of stores across Canada and a lucrative business in Latin America. As the loonie continues its upward trek, this also means that Dollarama's buying power is on the rise. This can only result in better products, more variety, and, in turn, more sales.

In other words, Dollarama is a great long-term pick for those investors looking to diversify with a retail stock.

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