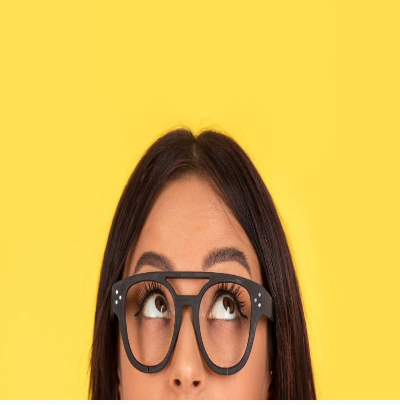

Dollarama Stock Looks Poised for a Multi-Year Breakout

Description

Dollarama (TSX:DOL) has been a steady performer through the pandemic, but it's still had its fair share of pressures. With COVID-19 vaccines continuing to be rolled out from coast to coast, Canadian investors have their sights set on the end of the pandemic. It's not just the pandemic's end that has me pounding the table on Dollarama stock, though. The company is ready to grow again, and I don't think the stock price fully reflects the discount retailer's return to the growth track.

Dollarama's return to the growth track

As you may remember, I rang the alarm bell on shares of Dollarama back in January 2018, warning that the overpriced dollar-store giant was at high risk of falling off the growth tracks. And with that, I suspected a nasty correction in shares. At the time, all was well with the discount retailer, as it continued surging toward new all-time highs. After my piece was published, Dollarama started treading water until it fell off a cliff in autumn, crashing 45% from peak to trough. To me, the writing was on the wall.

"Dollarama sells cheap items in its stores, but the stock is anything but cheap right now. I'm also not a big fan of management's share repurchases, as I think the stock has been overvalued for quite some time," I wrote.

"With nothing but optimism baked into the stock, a nasty plunge could be in the cards if a quarter ends up coming short of perfection. Sure, such a defensive growth powerhouse deserves a premium multiple, but at ~26 times forward earnings, you're paying way too much for what you're getting in return."

Dollarama stock could breakout to new heights in 2021

As it turned out, I was spot on. Fast forward to today and Dollarama stock is finally testing its January 2018 highs after years of rollercoaster-level volatility. The stock itself seems less expensive than it was in January 2018, near when DOL stock peaked. Yet, the growth story, I believe, is far better this time around, with the firm poised to expand such that its store count hits 2,000 over the next 10 years.

At the time of writing, Dollarama shares trade at 4.4 times sales, which is pretty modest when you weigh the calibre of defensive growth you're getting from the name and the alleviation of COVID-19 headwinds that's just up ahead.

Once the pandemic ends, it'll be off to the races for Dollarama stock again, and I think shares could be on the cusp of a massive breakout, years in the making. There are far too many catalysts to be on the sidelines with the name at these valuations, especially if the name has been on your watch list through this past year.

Foolish takeaway on DOL stock

Things are looking up for Dollarama. The end of the pandemic, the renewed growth plan and a broader market rotation to defensive growth all bode well for the stock. Moreover, shares of Dollarama recently hit a bullish intermediate-term signal, the double moving average crossover, which suggests Dollarama's recent rally is nowhere close to running out of steam.

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