Dollarama Stock Could Be in for a Summertime Breakout

Description

Don't look now, but **Dollarama** (TSX:DOL) is on the cusp of a potentially sizeable breakout past its all-time highs not seen since early 2018 — around the same time I urged investors to throw in the towel on the name, warning that the odds of a painful pullback were high. My Dollarama sell call ended up being spot on, as shares proceeded to shed 45% of their value from peak to trough.

Last year, I'd changed my tune on Dollarama stock, praising the firm for its resilience amid the pandemic and its ambitious new expansion plan that will see over 600 stores open shop in 10 years. The windfall of a higher loonie will also work in favour of the Canadian discount retailer.

Moreover, with the pandemic's end nearing, I think Dollarama has the stage set for what could be an explosive breakout that could see shares rally as high as $68 — a level that Irene Nattel of RBC Capital is eyeing.

Should you bet on a year-end breakout in Dollarama stock?

Undoubtedly, Dollarama's top growth drivers will take some time to pan out, making it more suitable for investors willing to hold on for years at a time, rather than those just looking to make a quick buck. Over the next 18 months, a lifting of pandemic restrictions, continued strength in the loonie, and a re-valuation to the upside could fuel Dollarama stock's breakout.

Let's have a closer look at each near-term catalyst and weigh whether or not Canadian investors should look to buy DOL stock, as it attempts a multi-year breakout.

COVID-19 headwinds to fade

Canada is leading the way in single-dose jabs. The nation is also likely to stay on top of any booster shots to better combat any new variants of concern, such as the “Delta” variant. The vaccine effort looks to be paving the way for a rapid move towards normalcy, and Dollarama will be a big beneficiary as COVID-19 costs pull back.

Moreover, foot traffic is likely to pick up traction in the second half of the year, as Canadians feel safer shopping in stores with increased in-store capacity.

A stronger Canadian dollar

Dollarama imports a considerable amount of goods from other countries. With the loonie surging on the back of higher commodity prices, the discount retailer will have more purchasing power, which should help combat the recent uptick in inflation.

Dollarama stock could command a higher growth multiple

Finally, Dollarama stock looks too cheap, given its renewed growth profile and its proven resilience in the face of crises and recessions. Right now, many people are talking about the “Roaring ’20s,” but one should not discount the possibility of another recession that could be triggered by imminent rate hikes.

As a defensive growth stalwart, Dollarama is a great way to hedge yourself against such a negative surprise. At 4.3 times sales and 30 times trailing earnings, Dollarama isn’t cheap by any stretch of the imagination, but I’d argue it isn’t as expensive as it should be at this juncture.

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