Why Dollarama's (TSX:DOL) Stock Price Dropped 5% Last Week

Description

Dollarama (TSX:DOL) was a Canadian stock at the top of the world before the pandemic. Shares of the company rose to all-time highs on the **TSX** today but then crashed with the rest of the market. Unfortunately, despite offering some essential items, Dollarama stock has yet to rebound. Shares of the company are down 5% in the last month and up just 6.5% year to date.

What happened?

A lot of this recent movement comes from the company's earnings report last week. Dollarama stock reported some good news, with profit up to $146.2 million — a year-over-year increase of 2.6%. Sales also continued to increase, reaching $1.03 billion and up from $1.01 billion the year before.

However, as predicted, the lockdowns on non-essential products were hard on the company. In Ontario specifically, comparable store sales fell 5.1%, then rose by the same amount after the lockdown. The company continued to open stores, however, bringing its total to 1,381 compared to 1,314 a year before.

So what?

Opening stores would have been great before the pandemic, but Motley Fool investors may worry that the company is moving too fast before it can catch up. True, Dollarama stock will eventually catch up after the pandemic. But it's likely to have a heavy debt to pay down.

That being said, low interest rates have also been hard on Dollarama stock. And that's about to change . Higher interest rates mean there is likely to be a flood of consumers heading back to Dollarama in a high-priced environment. Now that non-essential items are back on the shelves, impulse buyers are set to make sales soar.

And before the pandemic, Dollarama stock was doing well when it came to investing in its core business. In fact, its recent return on capital employed for the last year is at about 25%! That's significantly higher than the 14% of its peers. However, it's also lower than the 44% experienced years ago when its shares were at peak pricing.

Now what?

Motley Fool investors looking for a strong long-term hold are still encouraged to look at Dollarama stock. Shares of Dollarama stock have grown 924% in the last decade. That's a compound annual growth rate (CAGR) of 26% as of writing! And furthermore, the company is now at all-time highs. So, it may be simply that investors are worried there is going to be a breaking point in the near future.

But long-term investors on the TSX today know better. A strong company means solid share growth for decades to come. That's Dollarama stock. What's more, the stock is still considered cheap, despite the all-time highs. You can pick it up for a fairly valued 28.29 P/E ratio and EV/EBITDA of 17.5. Sales and earnings are set to continue climbing in the years to come, and the company can comfortably continue to open up new stores. That includes in Latin America, thanks to an acquisition made before the pandemic.

The stock has an average potential upside of 13.5% for the next year. That's about double what it's done this year so far. So, if you'd like some stellar returns for the next few decades, Dollarama stock is still a strong stock on the TSX today.

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