Why Dollarama Stock Could Hit $70 This Year

Description

Investors searching for value in today's overvalued markets have a difficult job. Valuations are nearing insane levels in nearly every sector. However, investors in **Dollarama** (TSX:DOL) stock may have a deal on their hands.

It makes sense; we're talking about a dollar store chain, after all.

There are a number of reasons why this popular discount retailer could go on a roll this year. Here's why I think Dollarama stock could hit the $70 level this year.

Bright long-term outlook

Dollarama's unique positioning as the leading discount retailer in Canada provides for a niche opportunity for investors seeking value. Indeed, the company's 1,368 stores in Canada include 12 net new stores added since April of this year. That's impressive size for any company focusing almost exclusively on the Canadian market.

What's intriguing about Dollarama is that the company's outlook is strong for its existing footprint. Analysts expect 3.4-4.5% annual growth in same-store sales. This growth is impressive and suggests gross margins should stabilize around the 44% range.

While higher shipping costs may put pressure on margins in the near term, the company's strong procurement team and annual refresh model, which switches up 25-30% of Dollarama's assortment each year, should minimize these concerns.

I remain bullish on Dollarama stock in this light and see this discount retailer as the future of brick-and-mortar retail in Canada.

Analysts believe Dollarama stock could hit $70

Various analyst upgrades have suggested upside as high as $70 per share is possible with Dollarama stock. Indeed, a range of target prices remain for Dollarama, and $70 appears to be an aggressive target right now. However, such a target doesn't seem outrageous, given the strength for Dollarama's core business of late.

The company has posted strong results recently. Additionally, a better-than-expected full-year outlook has been provided by Dollarama's management team, despite recent supply chain setbacks. Indeed, while investors may remain focused on various supply chain issues, Dollarama stock has the makings of an undervalued gem in today's overvalued market — that is, should the recovery lead to the bullish growth analysts expect.

For now, Dollarama stock appears to be well positioned for some decent upside from here.

Bottom line

As an economically sensitive name, Dollarama stock could certainly make some investors uneasy right now. However, this company's ability to generate significant cash flows and pay a small but meaningful dividend with an attractive payout ratio are worth considering.

Long-term investors looking for a retailer with serious upside potential from here ought to consider Dollarama right now.

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