Why Dollarama (TSX:DOL) Stock Was up 22% in 2021

Description

In 2021, discount retailer **Dollarama** (TSX:DOL) saw its valuation surge by more than a fifth. Dollarama stock was up 22% until December 31 but has since dropped slightly. If you zoom out and take a look at past performance, the long-term trend is clearly upward.

Here's why Dollarama had an exceptional year and why the year ahead could be just as lucrative for DOL shareholders.

Household price sensitivity

Discount retailers and dollar stores like Dollarama have been gaining popularity in recent years, driven by the rising cost of living. Households across the world are facing financial pressure, as inflation hits record highs. The cost of housing, food, education, and fuel have all spiked higher in 2021. With resources constrained, families tend to turn to cheaper retailers to save money.

This could be one of the key reasons why Dollarama saw its revenue and stock price surge throughout the year.

Fundamentals

Dollarama faced some pressure during 2020 as the government restricted the sale of non-essential items. These restrictions were lifted in the latter half of 2021, which resulted in a sales boom for the retailer.

From 2020 to 2021, annual sales jumped 6.3%. The company also reported a jump in net income. In 2021, net profit was reported at $183 million compared to $162 million in 2020. That's an annual growth rate of 12.9%.

Double-digit growth in net income could be the key reason why Dollarama stock was up 22% last year.

Dollarama stock valuation

Despite the surge, Dollarama stock looks attractive at its current valuation. The stock trades at a price-to-earnings ratio of 30.8, which implies an earnings yield of 3.3%. If it can deliver double-digit earnings growth in 2022 — say, 10% — that P/E ratio looks justified.

All the factors that helped Dollarama grow last year are likely to persist in 2022. Inflation is still near record highs. Households face even more pressure on their finances this year. Meanwhile, Dollarama is expanding the number of stores and entering new markets.

The retailer currently has just over 1,356 stores across Canada. Management expects to boost that to 1,700 by 2027 and up to 2,000 within the decade. The expansion of this network should create steady returns for shareholders over time.

Bottom line

Dollarama stock was up 22% last year. Inflation punished many households to cut back on spending and pick discount retailers. As a result, dollar stores saw their sales surge.

Dollarama reported strong sales growth and double-digit net income growth last year. This year, it's looking to do more of the same. As the company plans to double its network within 10 years, long-term investors seeking a steady growth bet should take a closer look at Dollarama stock.

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