Dollarama Stock: Is Now the Best Time to Buy?

Description

Dollarama (TSX:DOL) was one of the most popular stocks on the **TSX** before the pandemic. The discount store became a must-have for those seeking growth, as shares exploded upwards. Even the pandemic couldn't keep Dollarama stock completely down.

The COVID-19 pandemic brought it down but not out. The company managed to stay open, even during lockdowns, thanks to its label as an essential service. This allowed it to continue bringing in cash, whereas other retailers weren't. And it meant the company could continue on its path to growth.

But, unfortunately, investors may have thought there was too much growth for Dollarama stock in its future. Shares are up 33% in the last year and 108% in the last five years. That's an incredible amount for any company, especially a discount retailer. Let's look at whether Dollarama deserves that boost or whether it might be time to look elsewhere.

Inflation and supply-chain fears

The main issue that Canadians need to concern themselves with in terms of Dollarama stock is inflation and the company's supply chain. This week, analysts started to weigh in on the company ahead of its earnings release. While the company is likely to see strong growth after fewer restrictions and a strong holiday season, there are a few things to watch.

Dollarama stock may indeed have a bit of a hiccough when it comes to its supply chain, labour, and overall inflation, one analyst stated. The supply chain problem in particular already hit the company early on in 2021, leading to flatter increases year over year. So, the question is, can Dollarama handle even more pressures as investors look to margin increases at its quarterly report?

Handling the pressure

In short, yes. That's at least what analysts believe, stating as much again and again. This week, several analysts weighed in, and each was of the mind that the company continues to meet challenges

. However, these challenges aren't anything Dollarama stock can't face.

Why? Dollarama stock continues to have very few competitors in the Canadian market. While it may be increasing prices to handle inflation in some areas, in others, it remains steady to keep customers coming back. Furthermore, one analyst described the company as "relatively well insulated" from supply chain disruptions in the near term. This comes from its strategy of be a price follower, keeping value for consumers as long as possible.

Long-term growth

While, in the near term, there may be some pressure and lower year-over-year growth, analysts believe Dollarama stock is still a solid long-term option. In fact, it could continue to outperform its peers during its next earnings report. In the medium term, it could continue its network expansion. This has led to solid same-store sales growth in the past.

In fact, inflation could be good for Dollarama stock, as the company can charge more for its higher-end products — all while keeping other items at a low cost. Consumers continue to shift towards value, and trust Dollarama to only increase prices when absolutely necessary. This keeps everyone coming back for more.

Foolish takeaway

In short, Dollarama stock seems to have a strategy that continues to keep it on top. It has few competitors in the Canadian market, the supply chain well in hand, and inflation under control. Its consumers will continue to go there first, knowing it's the last to increase prices, leading to higher sales.

As for predictions, analysts peg the company at achieving double-digit earnings-per-share growth, perhaps to as high as $2.59. This would represent about a 20% increase year over year. Revenue could also reach about $1.23 billion for the quarter and EBITDA of $387 million.

Shares of Dollarama stock are up 9% year to date and 31% in the last year as of writing. It currently trades at 34 times earnings.

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