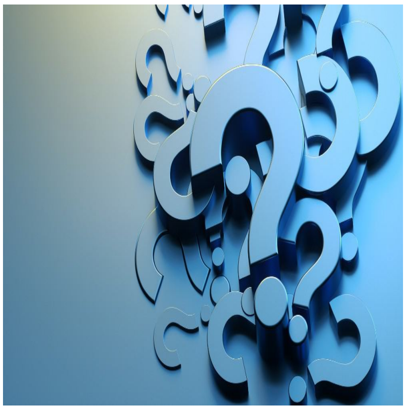

Will Dollarama (TSX:DOL) Stock Hit $100 This Year?

Description

The inverse relationship between **Dollarama** (TSX:DOL) stock and broad market indices have been quite profound of late. While TSX stocks are making new lows, DOL is comfortably sitting at record highs. It has soared 25% so far this year, notably beating broader markets.

Rising recession fears and defensive stocks

Defensive stocks have gained the limelight recently, and this could just be the start. As many economists fear, runaway inflation and rising rates could land us in a recession this year or next. Notably, the portion of experts saying the economic downturn is inevitable has increased recently. In fact, U.S. banks have recently started setting aside billions as provisions for bad loans.

It all points to a gloomy economic outlook and subdued market returns. However, defensive stocks like Dollarama are still well placed and could continue to soar higher.

Dollarama is a $22 billion value retailer in Canada. Value retailers see even higher demand during inflationary scenarios. Dollarama's vast presence in the country gives it a competitive edge over its peers. To be precise, it operates 1,431 stores, while its four pure-play peer value retailers collectively operate 514 stores. Note that it also faces competition from departmental stores and large retainers.

What's so special about Dollarama?

However, Dollarama's low-cost products and accessibility play well for its stable earnings growth. It has seen an average of 8-10% same-store sales growth over the last several years. Dollarama also has a healthy margin profile, even superior to its U.S. counterparts.

Its net profit has risen by 13% CAGR in the last 10 years. Value retail chains generally grow very slowly because of their wafer-thin margins and high competition. Thus, Dollarama's consistent, superior growth is quite a feat. Notably, DOL stock returned nearly 700% in the last 10 years.

Much of Dollarama's growth has come from its large number of stores that drove geographical expansion. Thus, the management plans to increase its store count to 2,000 by 2030. It has upped its store guidance from 1,700 previously.

Also, Canada is still an underpenetrated market when it comes to retail compared to the United States. So, Dollarama will likely see industry-leading growth in the long term, driven by increased footprint and higher spending.

On the contrary, Dollarama is also not immune to rising costs. It will also see pressure on margins for the next few quarters. In addition, its working capital cycle could get elongated due to supply chain constraints, as much of its shipments come from China. However, it does not seem as vulnerable in the current environment as some tech or discretionary stocks seem.

Bottom line

DOL stock currently looks in great shape. But $100 seems like a steep target for it at the moment. Note that even if DOL stock belongs to the defensive camp, it has seen superior growth all these years. Moreover, its strong earnings prospects, supportive macro environment, and not-so-overvalued stock could continue to create meaningful shareholder value in the long term.

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