3 Reasons to Hold Dollarama (TSX:DOL) Stock for the Long Term

Description

This has been a very tumultuous year for financial markets so far. Few stocks managed to stay resilient, and very few among them outperformed this year. And **Dollarama** (TSX:DOL) is one of them. Here is why it is one of the top TSX stocks and why you should consider it for your long-term portfolio.

DOL is truly an all-weather stock

In the last decade, markets saw epic rallies, marking one of the longest bull markets. Dollarama stock returned 980% in that period, outpacing Canadian equity markets by a substantial margin.

Interestingly, the cycle soon inverted, and markets started trading lower late last year. The post-pandemic blues brought in inflation woes, ultimately leading to higher interest rates. But in bear markets as well, DOL stock has stayed firm and has outperformed. Since the fourth quarter (Q4) of 2022, when broader markets started turning lower, Dollarama has returned 45%, while TSX stocks at large have dropped 5%.

So, DOL stock has outperformed in all kinds of markets. Its unique business model has facilitated stable earnings growth all these years, which drove the outperformance.

Business model and financials

Discount retailer Dollarama operates more than 1,400 stores in Canada. Its extensive geographical presence is significantly larger than its peers and acts as a key competitive advantage. Its unique value proposition becomes all the more valuable for customers in inflationary periods. As a result, it has seen relatively superior revenue growth in the last few quarters.

Note that Dollarama is not just a convenience store. Apart from offering a broad range of merchandise, it also deals directly with vendors to customize the design and packaging of its products. This eliminates large overhead costs, ultimately enhancing its bargaining power and giving it a long-term economic advantage.

It sources goods from 25 countries, mainly from China, and its top 10 vendors account for 26% of its total purchases, indicating a diversified supplier base. Moreover, Dollarama sources its products on an order-by-order basis and does not engage in long-term contracts. Direct sourcing from low-cost suppliers and long-lasting relationships with them have boded well for its long-term business.

In the last 10 years, Dollarama's revenues grew by 10% compound annual growth rate (CAGR) and net income increased by 13% CAGR. Those are not way superior numbers when compared to some fast-growing companies. But what stands out is how consistently it brings its financial growth in almost all business cycles.

Growth outlook

Dollarama aims to open 600 more stores by 2031. Canada is still an underpenetrated market for retail as compared to the United States. So, Dollarama will likely be a big beneficiary of this secular growth with its established footprint.

Dollarama owns a 50.1% interest in DollarCity, a value retailer in Latin America. Like its parent, DollarCity sells a broad assortment of consumable products in 350 stores.

As Dollarama expands its footprint in Canada and in Latin America in the next few years, it will likely see strong earnings growth and superior value creation. Plus, its less-volatile stock and low-but-stable dividends play well for shareholder returns in almost all types of markets.

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