Dollarama Stock Is Trading at Record Highs

Description

While markets continue to trade lower on inflation woes, some names are trading at record highs. Canadian value retailer **Dollarama** (TSX:DOL) is one of them. It has been trading strong throughout the year at nearly the same time that broader markets started losing steam. Dollarama stock has returned 35% this year, while TSX stocks at large have lost 15% in the same duration. The outperformance is indeed notable, given the long-lasting weakness the market has displayed this year.

DOL stock continues to outperform

What's notable about Dollarama is its consistent growth in almost all business cycles. Investors perceive it as a defensive stock, but it has grown well above average for the last decade. Though it belongs to the slow-growing, low-margin retail sector, DOL stock has returned 85% in the last five years and 700% in the last 10 years.

The last decade marked one of the longest bull cycles on record. Moreover, when the cycle inverted late last year, amid rising inflation and interest rate hikes in 2022, DOL stayed strong and comfortably outperformed.

Dollarama is a leading discount retailer and operates 1,431 stores in the country. It mainly differentiates from other retailers on low fixed-price points, convenience, and a broad assortment of branded or unbranded household items.

The company mainly operates as a “brick-and-mortar” company but has also been experimenting with e-commerce on several fronts. It does not plan to become an online retailer or intend to introduce a new niche vertical for online shopping. Instead, the online feature will remain limited for customers buying in large quantities.

Robust business model and solid financial growth

Dollarama sources its products from 25 countries, mainly from China. The vendor base of Dollarama is quite diversified, and the largest vendor accounts for only 4% of its total purchases. Moreover, it buys products on an order-by-order basis and does not engage in long-term contracts.

Note that Dollarama is not only a retailer. It also engages with suppliers when it comes to the customization and packaging of products. This enhances its bargaining power and eliminates overhead costs.

All this has effectively translated into its financial growth over the years. In the last 10 years, Dollarama has grown its revenues by 11% and income by 16%, compounded annually. Moreover, it has shown reasonable margin stability, with long-term gross margins averaging 47%.

Dollarama will likely keep growing at a stable pace in the long term. Its focus on expanding its geographical presence should aid its top-line growth. By 2030, the company aims to set up 600 new stores in Canada. It also holds a 50.1% stake in Latin American value retailer DollarCity. Like its parent, DollarCity sells a comprehensive range of consumable products in 350 stores.

Bottom line

Dollarama will likely continue to outperform, driven by its solid business model and a large addressable market. Its earnings visibility and margin stability, particularly in inflationary environments, speak for its business strength. Its less-volatile stock and steady dividend make it appealing to conservative investors, too.

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