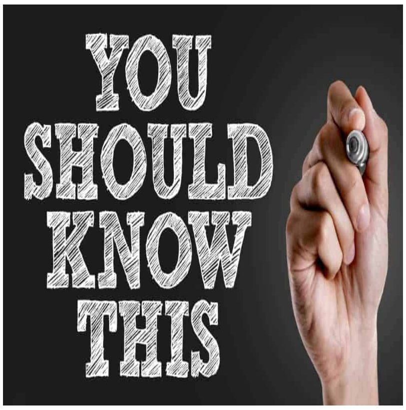


# 5 Things to Know about the Dollarama Stock in November 2022

### Description

**Dollarama** (TSX:DOL) has been a rare pick this year that has notably outperformed broader markets. Almost all sectors and stocks underperformed amid rate hikes and adamant inflation this year. Despite the recent correction, DOL stock is sitting on 26% gains for the year. It has witnessed some profit booking since last month, bringing it down 8% from the top.



Let's see if Dollarama stock offers value from here.

## Economic moat

Dollarama operates more than 1,400 stores across Canada, which is way higher than its competitors. This extensive footprint offers convenience to customers and a scale advantage to the company. It offers a broad range of merchandise and consumer products that are sourced from cost-effective countries and vendors. It intends to expand the store network to 2,000 by 2031.

To sustain inflation pressures, Dollarama introduced an additional price point of $5 early this year. This increases the basket size and total order value for customers, compensating for higher costs to some extent. Also, Dollarama connects with its vendors to customize products to bring in value-added features. This allows exclusivity and a potential for higher margins.

## Financial growth

In 2022, when corporate earnings growth is taking a hit, Dollarama is seeing accelerated revenue and earnings growth. For the long term as well, this value retailer has seen above-average income growth. Dollarama managed to increase its earnings by 16%, compounded annually in the last 10 years.

Apart from earnings, its margin stability also underlines its business strength. Dollarama has consistently seen operating margins well above 20% in the last more than five years. Its effective supply chain management and strong operational execution helped it achieve higher margins than its peers.

Dollarama's average return on invested capital came in at 25%, which is much higher than Canadian as well as U.S. peers. Return on invested capital is a measure of profitability and shows the company's value-creating ability.

## Inflation hedge

Traditional inflation hedges like gold have disappointed investors this year. However, Dollarama stock has played remarkably well in these inflationary times. Its value proposition becomes more important amid high cost-of-living periods, explaining its higher financial growth in 2022.

Dollarama has been successful so far in passing the higher cost burden to its customers. And that's why it has created a notable value for shareholders, making it a smart bet for inflationary times.

## All-weather stock



DOL stock outperformed in the earlier bull cycle as well. It has returned 680% in the last 10 years, beating broader markets by a big margin. So, if you are looking for an all-weather stock, Dollarama stock fits the bill. Moreover, its less-volatile nature and stable dividend make it an appealing bet for conservative investors as well.

## Valuation

DOL stock is currently trading 30 times its earnings and does not look significantly cheap. Its historical price-to-earnings ratio comes to around 28. Given its margin strength and leading position in Canadian retail, the premium valuation seems warranted.

Inflation will likely remain elevated going into 2023, making investors nervous about risk assets. Dollarama stock will likely remain in the limelight, considering its earnings visibility and margin stability.

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