Dollarama Stock Could Be the Ultimate Market-Beater in 2023

Description

Dollarama (TSX:DOL) might seem like a boring, typical retailer on the face of it. However, there's more to it. When many retailers were squeezed by inflation woes last year, this discount store company maintained its strength and kept steadily growing. While this industry is slow-growing, Dollarama has consistently driven industry-leading growth and has created notable shareholder value.

How DOL stock outperformed in the past

In 2022, the **TSX Composite Index** declined 9%, while DOL stock returned 28%. And it was not just a one-time thing. DOL stock has returned 710% in the last decade, beating TSX stocks by a big margin.

So, investors should note that Dollarama has such a competitive edge that works well in nearly all kinds of economic cycles. Record-high inflation and rapid rate hikes immensely weighed on businesses last year. However, Dollarama's stable financial growth amid strong execution played very well in 2022.

Competitive advantage

Dollarama differentiates itself from its peers on many fronts. It owns and operates 1,462 stores across Canada, way higher than its peers. Plus, it offers value to customers from all walks of life at fixed, multiple price points. Cleverly, the company introduced an additional price point of $5 early this year when inflation was starting to rise.

Dollarama sources its products directly from vendors on an order-by-order basis. Plus, by directly dealing with the vendor, Dollarama develops product design and packaging, which facilitates bargaining power and differentiated products.

Dollarama has increased its net income by 15%, compounded annually in the last 10 years. Its margins and return ratios have also been quite stable compared to peers in the same period. In the last 12 months, DOL reported an operating profit margin of 23.4%, more than double that of peer North American retailers.

Growth plans

Dollarama aims to reach a 2,000 target store count by 2031. A massive geographical footprint has been a key driver behind its rapid growth so far. So, expanding on the same competitive edge will likely pay off in the long term. Plus, many Canadian provinces are still underpenetrated in retail. Thus, demand for brick-and-mortar retail should bode well for its business growth.

Dollarama owns a 50.1% stake in Latin American retailer DollarCity. It currently operates 350 stores in El Salvador, Peru, Columbia, and Guatemala. This could be a key growth driver for Dollarama in the long term, with large population areas and relatively underpenetrated markets.

Dollarama has seen consistent free cash flow growth over the years. Along with stable dividends, it engages in share buybacks as a strategy to return excess cash to its shareholders. Since 2013, it has returned $5.5 billion of cash to shareholders via buybacks. Share buybacks boost share prices in the short term and also increase future per-share earnings. On the dividend front, DOL paid a trivial $0.22 per share in 2022, implying a 0.3% yield.

Inflation buster

Dollarama is hitting all the right spots, it seems. Be it the store count or merchandise sourcing, it has executed on its strategy well, which brought in consistent growth and margins over the years.

DOL stock is currently trading near its record highs and does not look cheap from a valuation standpoint. And why not! It warrants a premium valuation after its first-class record performance and handsome growth prospects. So, even if inflation and rate hike themes keep dominating broader markets, DOL stock could continue to outperform in 2023 and beyond.

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