Dollarama Stock: How High Could It Go in 2023?

Description

While the **TSX Composite Index** lost 7%, Canadian discount retailer **Dollarama** (TSX:DOL) stock jumped 25% last year. And it was not a one-off year. Dollarama has notably outperformed broader markets for years, whether in a bull or a bear cycle.

How Dollarama outperformed last year

Businesses with stable earnings growth in all economic cycles create notable shareholder value. For Dollarama, this has been the case for years. Since 2012, steady financial growth and healthy margins have made it quite resilient to broad market pressures.

Adamant inflation and record-high interest rates weighed on corporate earnings growth and margins last year. However, Dollarama was different on this front as well. It saw accelerated revenue growth and consistent margin stability in 2022, justifying DOL stock's outperformance.

For 2023, Dollarama looks well placed due to its stable earnings growth prospects, thanks to its key competitive advantages and strong execution. As inflation remains at elevated levels this year as well, Dollarama's value proposition will be even more appreciated by customers.

Focusing on fortifying its competitive edge

Dollarama operates 1,462 stores across Canada, way higher than its peers. Moreover, it aims to reach a store count of 2,000 by 2031. Based on its long-term growth strategy, the value retailer will keep expanding its geographical reach, helping its topline growth. Historically, Dollarama sets up 70 net new stores every year. It aims to focus on Western Canada for the next few years because of its relatively lower penetration there.

DollarCity—the Latin American retailer?will be a key growth driver for DOL in the long term. DOL holds a 50.1% stake in DollarCity. It currently has 395 stores in four Latin American countries and plans to expand to 850 by 2029.

Dollarama's free cash flows more than doubled in the last five years. Such handsome financial growth drove its market performance, and the stock returned 70% in this period. Note that DOL stock has returned nearly 800% in the last decade.

DOL stock: Valuation and buybacks

DOL stock does look richly valued at the moment with its price-to-earnings ratio at 31x. That's higher than its peers and historical average. However, the premium seems warranted with its resilience to broader market woes and outperformance. Plus, its premium valuation suggests that market participants believe DOL stock to play well in 2023. So, despite being expensive at close to record highs, DOL stock will likely keep trading strong.

Moreover, Dollarama has been a long promoter of share buybacks and has bought back 40% of outstanding shares since 2012. Share repurchases are a way to distribute excess cash to shareholders. Buybacks result in a share price increase in the short term and also indicate that management perceives the shares as undervalued.

Apart from buybacks, Dollarama also pays stable dividends that have consistently increased since 2011. Its dividends currently yield an insignificant 0.3% but highlight its sound balance sheet.

Conclusion

Dollarama differentiates itself from its peers on several fronts. A wide presence, effective supply chain, and stellar execution have driven robust financial growth for years. As markets continue to remain volatile in 2023, DOL stock could serve as a respite for investors. After last year's solid show, it won't be a big surprise if DOL breaches $100 levels this year.

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