



2 Reasons Why Dollarama (TSX:DOL) Might Be a Buy

Description

Dollarama ([TSX:DOL](#)) has been an incredible growth story in recent years. Over the past five years, the firm's shares have increased by more than 200%.

Every story must come to an end, though, and with decelerating comparable sales growth in several quarters, many analysts predicted that the dollar store chain doesn't have much left in the tank. Despite these warnings, there are several good reasons why Dollarama might not be done just yet. Here are two of those reasons.

A recession might be on its way

Unless you have been living under a rock, you have probably heard that economists are increasingly worried that a recession is coming soon. The infamous inverted yield curve has preceded every single recession in the U.S. over the past few decades.

Once the reliable predictor of a coming economic meltdown was observed earlier this year, economists were left to draw the obvious conclusion. While nothing is set in stone yet, it is wise to take this potential warning into consideration when making your investment decisions.

During an economic downturn, some companies perform better than others because of a shift in consumer spending, among other things. The average person is likely to spend less money and to turn to businesses that offer competitive prices for everyday items.

Obviously, Dollarama fits that description down to a tee. Thus, the firm might actually perform comparatively well if a recession hits. Of course, there are no guarantees in life, but it is worth keeping an eye on the Montreal-based company in these uncertain economic times.

The Latin American market

Back in July, Dollarama signed a deal to acquire a 50.1% stake in Dollarcity, a dollar store chain that operates in El Salvador, Columbia, and Guatemala. The deal was valued at about US\$85 million to US\$95 million. This acquisition is expected to add a few cents per share to Dollarama's earnings for

the remainder of the current fiscal year.

More importantly, it represents an attempt by the firm to keep its momentum going. The Latin American market presents strong opportunities for growth as its retail market is less competitive than that of Canada. The number of stores owned and operated by Dollarcity has increased rapidly in recent years, and it is expected to continue growing in the future.

As of late March, Dollarcity had 180 stores; that number should exceed 600 stores by 2029, according to the firm.

The bottom line

During its [latest reported quarter](#) — Q2 2019 — Dollarama saw its sales increase by 9.2% year over year, while comparable store sales grew by 5.2%, vastly outpacing the 2.6% comparable store sales growth in the same period of the previous fiscal year. Further, the firm's earnings per share increased by 7.1%, and Dollarama grew the number of stores it owns by 6% year over year.

These figures — if a bit less impressive than those that helped the company grow to its current levels — aren't as bad as advertised. Because of that and its Latin American operations, Dollarama might still have something to offer investors.

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