



Should Dollarama (TSX:DOL) Be Part of Your Long-Term Investment Portfolio?

Description

Dollarama ([TSX:DOL](#)) has provided investors with solid returns in the past. The stock price has more than doubled over the last five years. The gains were largely due to the company's ability to rapidly grow its revenue. Looking ahead though, the company is unlikely to grow its revenue at previous rates for the following reasons.

Limited long-term store growth potential

Historically, Dollarama's primary growth engine has been new store openings. However, the company has already opened over 70% of its 1,700 target store count in Canada, limiting its potential to open new stores in the future. In addition, as its store base moves towards maturity, revenue growth associated with new store openings will comprise a smaller percentage of total revenue.

Slowing same-store sales

Another driver of growth for the Dollarama has been rising same-store sales. Still, the company's rate of same-store sales growth slowed to 2.7% in fiscal 2019 from 5.2% in fiscal 2018. A closer look at the numbers shows even more cause for concern. The 2.7% increase in 2019 consisted of a 3% increase in average transaction size, partially offset by 0.3% decrease in traffic. This followed a 5.2% increase in average transaction size and flat traffic in fiscal 2018.

In short, over the last two years management has been unable to boost the number of customers shopping in its stores. In addition, increasing transaction size is an [unsustainable](#) way of driving growth when operating a dollar store.

International expansion still up in the air

Dollarama currently provides consulting and services to Dollar City, a Latin American value retailer with about 170 stores. The company has the option to buy 50.1% of Dollar City in 2020. Until Dollarama

actually buys a controlling interest in Dollar City, it's growth potential in Latin America is mere speculation.

New online store initiative just getting off the ground

Dollarama recently launched its online store. It offers the company's most popular products for sale by the case. In my opinion, it will be difficult for the company to get its price-conscious customer to purchase products by the case. Even if it does succeed, online sales are not likely to make a meaningful contribution to the company's overall sales growth in the foreseeable future.

To sum it all up

It's time to look for more sustainable and proven [growth opportunities](#) to invest your dollars. Dollarama has nowhere to grow in Canada over the longer term, and its international and other growth initiatives are currently unproven. Sure, the stock could bounce in the near term, but because its long-term growth prospects are limited, I would not buy the stock.

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