DSR STOCK CARD

12/15/2022

DOLLARAMA (DOL.TO)

Business Model

Dollarama Inc is a Canada-based company principally engaged in operating discount retail stores. The company provides a broad range of everyday consumer products, general merchandise, and seasonal items, with merchandise at low fixed price points. General merchandise and consumer products jointly account for the majority of the company's product offerings. The company's stores are located throughout Canada, generally in convenient locations, such as metropolitan areas, midsize cities, and small towns. All the stores are directly owned and operated by the company.

The Company in a Nutshell

- Dollarama's business model is mostly sheltered from the e-commerce threat.
- DOL offers a great defensive play during a recession.
- DOL is not known for its generous yield but offers stock appreciation potential.

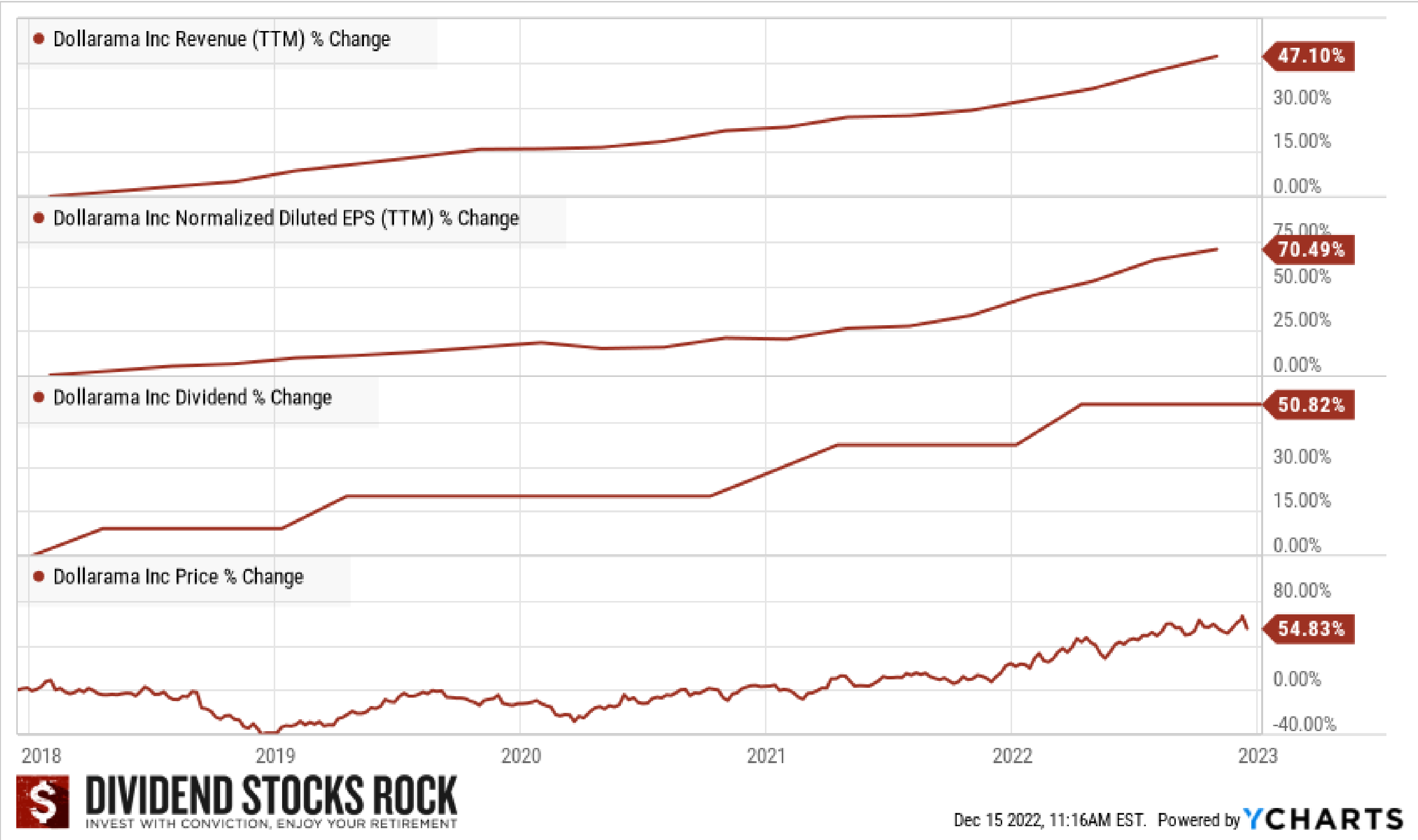
Investment Thesis

You will not pay your utility bills with an investment in Dollarama's yield as management doesn't share the wealth with its shareholders yet, mainly because it sees so many growth opportunities. Through the acquisition of 51% of Dollarcity, DOL has demonstrated international growth potential in Latin America. At the same time, DOL continues to enjoy a stable Canadian economy. DOL has built a strong brand, and its business model (aimed at low-value items) is an excellent defensive play against the e-commerce threat over the retail business. Please note that the DDM calculation doesn't hold considering DOL's low yield. Unfortunately, there are concerns surrounding DOL's ability to maintain its margins going forward. DOL introduced a new price point of $5 for many items, which lends additional flexibility and pricing power.

VALUATION

Dividend Growth Rate Years 1-10: 12% **Terminal Dividend Growth Rate:** 7.00%

	Discount Rate (Horizontal)		
Margin of Safety	**8.00%**	**9.00%**	**10.00%**
20% Premium	$43.88	$21.60	$14.19
10% Premium	$40.22	$19.80	$13.01
Intrinsic Value	$36.57	**$18.00**	$11.83
10% Discount	$32.91	$16.20	$10.65
20% Discount	$29.25	$14.40	$9.46



Potential Risks

Although Dollarama is dominant in Canada, similar U.S. chains (e.g., Dollar Tree) are eyeing the Canadian market. While Latin America exhibits strong potential, it also comes with additional volatility. Political and economic stability is a concern from time to time. Another rising problem is the constant pressure on DOL's margins. Selling small and inexpensive items makes volume king, but margins remain low. Price increases would hurt DOL's business model and store traffic. DOL must factor in raw material and transportation costs since the bulk of the items sold aren't coming from North America. They may also have to deal with higher labor costs related to improving conditions during the pandemic and the inflation of wages. So far, DOL continues to exhibit a highly resilient business model.

Dividend Growth Perspective

With a yield of approximately 0.30%, it doesn't matter if DOL can increase its payout by a high-single-digit to double-digit figure. Nonetheless, you can expect substantial dividend increases over the coming years. Once management will have executed its aggressive growth plan, you can expect robust dividend growth as Dollarama is truly a cash-generating machine. After paying the same dividend over all of 2020, management provided a 7% increase to shareholders at the start of 2021 and increased it again in 2022 by another 10%.