What to Expect When Dollarama Reports Earnings This Week

Description

Earnings season is just about over, and almost every company has posted their quarterly results, but there a still a few stragglers left. **Dollarama** (TSX: DOL) is one of the last companies to report.

Dollarama has been one of the biggest beneficiaries of the deep-discount trend in recent years, as the unequal distribution of wealth in Canada and the sluggish economic recovery have made this niche more lucrative. But with growing competition in the Canadian retail space, investors are worried that the company's expansion may be on its last legs.

Let's take an early look at what has been happening at Dollarama over the past few quarters and what we're likely to see when the company reports this week.

Stats on Dollarama

Analysts' EPS Estimate	$0.75
Year-Ago EPS	$0.62
Revenue Estimate	$505.1 million
Change From Year-Ago Revenue	12.7%
Earnings Beaten in Past 4 Quarters	2

Source: Yahoo! Finance

Will Dollarama deliver for shareholders this quarter?

Over the past month, analysts have stayed pretty consistent in their views of Dollarama. They haven't budged on their consensus earnings estimate for the upcoming quarter, although they have added a penny to their full-year fiscal 2015 forecast. Yet in spite of Bay Street's benign outlook, the stock has rallied 7% over the past three months.

There's a lot to like about the Dollarama story. Earnings have grown to $250 million, from just $50 million in fiscal 2008. Since the company's initial public offering in late 2009, the stock has soared 400%, and that figure doesn't even include dividends.

The bull thesis is still intact. The dollar store concept is still relatively undeveloped in Canada, with fewer than half the number of stores per-capita relative to the United States. The company is adding higher-margin merchandise at $1.50, $2.00, and even $3.00 price points.

But no thesis is bulletproof. The retail space in Canada is starting to get crowded. Dollar Tree has been expanding into the country, adding 180 stores. **Wal-Mart** (NYSE: WMT) and other American giants are offering similarly priced items, making dollar stores a less appealing place to shop.

This may already be showing up in Dollarama's financial results. Last quarter, same-store sales — a key retail metric of sales in stores opened for at least one year — grew only 1.1%. The official story is that this was due to harsh winter weather. However, without a big rebound this quarter, it could signal that trouble is brewing.

Margins are also under pressure, although this is due mostly to the falling Canadian dollar. Notably, management has admitted that the company will not be able to pass on its higher costs to customers due to intense competition. Could lower prices be next?

In its quarterly report, keep a close eye on the Dollarama's margins. To stay successful, the company needs to be able to fend off rivals and transition customers to higher-margin products. If it can do so, then Dollarama has plenty of room to grow.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:DOL (Dollarama Inc.)

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rbaillieul