Why Investors Should Trade In Their Loonies for Dollarama Inc.

Description

When it comes to the retail sector in Canada, solid options are few and far between for investors. There aren't a lot of choices when you factor out food retailers and American companies, but there are still a few interesting options left for investors. OK, there are really only two options left for investors and one of them is **Dollarama Inc.** (TSX: DOL).

Dollarama has emerged from the 2007-2008 recession as a top player in the Canadian market. Its stock price has mirrored this as well, going from its IPO opening price of $19.49 in 2009 to a closing price Friday of $94.53. This is all thanks to luring in bargain-hunting customers looking to shave a few extra dollars from their monthly budgets, a model that has served Dollarama well even after it abandoned its $1 universal price tag five years ago.

Now Dollarama's latest quarterly report is out and it is leaving investors saying, "I'd buy that for a dollar!"

The quarterly report is in aisle 4 right next to the birthday cards

Let's cut right to the impressive numbers here: Sales in this past quarter rose an astonishing 12%. Any double-digit growth that doesn't involve a merger is almost unheard of in the current Canadian market. In terms of dollars, sales in Q2 2015 were $572 million, up from $511.3 million, thanks to a same-store sales increase of 4.2%, just behind the 6.2% that was reported in Q2 2014.

What is most intriguing about these sales numbers is the fact that 67% of total sales came from products that were priced higher than $1, up from 61.7% last year. There was a fear five years ago that shoppers would abandon the store once the universal $1 price tag was abandoned. However, bargains seem to be overshadowing loonie-priced goods as people are looking for cheaper prices than **Wal-Mart** and, to a lesser degree, **Target**.

Thanks to this stellar increase in sales, EBITDA increased by 13.5% totaling $108 million, up from $95.6 million. While net earnings rose to $68.9 million, up from $59.8 million, in terms of earnings per share this quarter saw an increase of 25.6%, clocking in at $1.03 per share up from last year's quarter of $0.82.

A small sour note for the company was the decrease in its gross margins, which fell to 36.1% from 36.6%. The decrease is partially attributed to increased tariff charges and the lower Canadian dollar. This is an issue as — although Dollarama operates in Canadian dollars — all of its purchases from Asia are made in American currency.

A dollar store on every corner

In the quarter, Dollarama added 18 net new stores, bringing its total to 917 stores, up from 828 this time last year. Despite this growth, the company is still determined to reach the 1,200-store plateau in the coming years, as they are on target for 70 to 80 new locations this year alone.

Earlier this summer, several analysts projected that the Canadian market can support up to 500 more Dollarama stores nationwide, which would bring the sectorwide footprint to 2,400 stores. Dollarama expects to have about four or five years left of "good runway" in Canada; this time frame would max out its current expansion plans and may result in the plateau of same-store growth numbers.

When you factor in the proposed rate Dollarama's American competitors are looking to expand in Canada, soon dollar stores will begin to outnumber coffee shops in the country.

Divide and conquer

Thanks in part to this great quarter, Dollarama has announced a unique 2-for-1 stock split, as it comes in the form of a share dividend of one common share for each issued and outstanding common share of the corporation. The "split" will be paid out on November 17 to all shareholders of record as of November 10. So now may be a good time to load up on some extra Dollarama shares, which closed Friday at $94.53 and has an average price target of $102.00.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

Category

1. Investing

Date
2025/07/03
Date Created
2014/09/15
Author
cameronconway