

## 3 Key Factors Behind Dollarama Inc.'s Ongoing Rally

### Description

**Dollarama Inc.** ([TSX:DOL](#)) is the largest owner and operator of dollar stores in Canada. With more than 900 locations, the company did over \$2 billion in sales in its most recent fiscal year. It has also been one of the market's best performing stocks in 2014, rising more than 16.5% year-to-date compared to the TSX Composite Index's return of about 8.4%. There are several factors that have played a role in its rally, with the most notable being earnings growth, increased shareholder returns, and the company's expansion efforts. Let's take a closer look at each of these three factors to determine if they could continue pushing shares higher and whether or not we should consider initiating long-term positions today.

#### 1) Strong financial growth

In the first half of fiscal 2015, Dollarama reported earnings per share growth of 25%, revenue growth of 11.9%, gross profit growth of 10.4%, and operating profit growth of 18.2% compared to the first half of fiscal 2014. Furthermore, the company's operating margin has expanded 90 basis points to 16.5% in the first half and this can be attributed to selling, general, and administrative expenses increasing just 7.5% and depreciation and amortization decreasing 19.5% year-over-year.

#### 2) Increasing shareholder returns

On top of its strong financial growth in the first half, Dollarama has been very active in returning capital to shareholders, including \$296.48 million in share repurchases and \$20.68 million in dividend payments. The \$317.16 million in total shareholder returns in the first half far surpassed the \$121.93 million returned in the first half a year ago, and puts it on pace for over \$634 million in returns for the year.

#### 3) Ongoing expansion efforts

Dollarama has been actively expanding across Canada, including the opening of 43 stores in fiscal 2015, bringing its total store count to 917. Expansion has been one of the key drivers behind the company's revenue growth and it is a crucial factor in its plan to grow into one of Canada's largest retailers. In the long-term, I think Dollarama could easily have more than 1,500 locations, and it could do this without market densification issues, which is a negative effect caused by having too many stores in one area that end up competing with each other.

#### Should you go long Dollarama today?

Dollarama is one of the premier discount retailers in Canada and the growing demand for its offerings has led it to very strong financial growth in fiscal 2015. The company's stock has followed suit by rallying more than 16% higher year-to-date and it could continue much higher, as it still trades at just 26.7 times trailing-12-months earnings and only 23.7 times forward earnings. With all of this information in mind, long-term investors should strongly consider initiating positions in Dollarama on any weakness provided by the market.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

## Category

1. Investing

## Date

2025/10/01

## Date Created

2014/11/12

## Author

jsolitro

default watermark

default watermark