



Is Dollarama Inc. the Top Retail Stock to Own Today?

Description

Dollarama Inc. ([TSX: DOL](#)), the largest owner and operator of dollar stores in Canada, announced third-quarter earnings for fiscal 2015 this morning and it achieved double-digit percentage growth on both the top and bottom lines once again.

Dollarama has been one of the fastest growing retailers in Canada over the last couple of years, so let's break down the report to determine if we should consider initiating long-term positions today or if wait for a better entry point in the weeks ahead.

The mixed third-quarter results

Here's a chart of Dollarama's third-quarter earnings per share and revenue results compared to what analysts had expected and its results in the year-ago period.

Metric	Reported	Expected	Year Ago
Earnings Per Share	\$0.55	\$0.54	\$0.435
Revenue	\$587.97 million	\$591.64 million	\$522.95 million

Source: *Financial Times*

Dollarama's earnings per share increased 26.4% and its revenue increased 12.4% compared to the third-quarter of fiscal 2014, as comparable-store sales rose an impressive 5.9%. The company noted "very strong" Halloween sales as a key driver of sales during the quarter and it also benefitted from 69% of sales coming from products priced over \$1.00 compared to 62% in the year ago period.

Gross profit increased 11.3% to \$216.16 million and operating profit increased 20% to \$105.04 million, as the gross margin contracted 30 basis points to 36.8% and the operating margin expanded 120 basis points to 17.9%. The contraction of the gross margin can be attributed to lower product margins, as the company faced higher product costs that it did not entirely pass on to its customers, and the expansion of the operating margin can be attributed to selling, general, and administrative expenses increasing just 7.3%, which was far outpaced by the company's 12.4% revenue growth.

Finally, in terms of expansion, Dollarama opened 11 net new stores during the quarter, bringing its total store count to 928 in Canada. The company has now opened a total of 54 net new stores year-to-date, which puts it on pace to reach its goal of opening 70-80 in fiscal 2015.

Is Dollarama a long-term buy today?

Dollarama is the leading operator of dollar stores in Canada and increased traffic at its stores drove it to report very strong third-quarter results. The company achieved double-digit growth in earnings per share, revenue, gross profit, and operating profit, along with very strong comparable-store sales growth of 5.9%, and it continued to expand across the country.

With all of this information in mind, I think Dollarama should be atop the list of all long-term investors seeking an investment in the retail industry, because its stock trades at very inexpensive valuations today, including just 20.9 times next year's earnings estimates, which is a steep discount compared to its five-year average price-to-earnings multiple of 22.1.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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