# Could Dollarama Inc. Rally Another 30% in 2015?

## Description

**Dollarama Inc.** (TSX: DOL), the leading owner and operator of dollar stores in Canada, has been one of the best performing retail stocks in 2014, rising more than 34.5%, far outperforming the TSX Composite Index's return of about 7.6%. The stock has gained steam in recent weeks, including a gain of more than 25% since October 1, and I think there is still plenty of room to the upside, so let's take a look at three of the primary reasons you should consider investing in Dollarama today.

**1. The industry leader with plenty of room to grow**

As mentioned before, Dollarama is the leading owner and operator of dollar stores in Canada, and it currently operates 928 stores across all 10 provinces. The company has opened a total of 54 new stores year-to-date in fiscal 2015, putting it on pace to reach its goal of opening 70-80 for the year.

In the long-term, I think Dollarama could easily have over 1,500 locations in Canada, which would allow it to reach every major market and I think it could do this without running into issues related to market densification. Furthermore, I think Dollarama could explore expanding into the highly competitive U.S. market, where there is a very strong demand for dollar stores and where Dollar General, Dollar Tree, and Family Dollar have over 20,000 locations combined.



**2. Strong earnings growth to support a continued rally**

On December 4, Dollarama released record third-quarter earnings and its stock has responded by rallying more than 12% in the weeks since. Here's a breakdown of what it accomplished compared to the year-ago quarter:

- Earnings per share increased 26.4% to $0.55.
- Revenue increased 12.4% to $587.97 million.
- Same-store sales increased 5.9%, including a 4.8% increase in the average transaction size and a 1.1% increase in the number of transactions.
- Gross profit increased 11.3% to $216.16 million.
- Operating profit increased 20% to $105.04 million.
- The operating margin expanded 120 basis points to 17.9%.

Year-to-date, Dollarama's earnings per share have increased 26.1% to $1.45, its revenue has increased 12.1% to $1.66 billion, and its same-store sales have increased 4.5%, all of which puts it on pace for a record-setting yearly performance.

**3. Inexpensive current and forward valuations**

At current levels, Dollarama's stock trades at approximately 26.9 times fiscal 2015's estimated earnings per share of $2.21 and approximately 23.1 times fiscal 2016's estimated earnings per share of $2.58, both of which are inexpensive given the company's long-term growth rate. I think the stock could consistently trade at a fair multiple of about 26, which would place shares upwards of $67 by the conclusion of fiscal 2016, representing an increase of more than 12.5% from current levels, and this does not include the additional returns from reinvested dividends.

**Should you buy shares of Dollarama today?**

Dollarama Inc. has been one of the best performing stocks in the market in 2014, rising more than 30%, and I think it could post a similar performance in 2015, because it is Canada's leading dollar store chain that has plenty of room to expand, it has the support of double-digit earnings growth, and because its stock trades at inexpensive current and forward valuations. With all of this information in mind, I think Foolish investors should consider Dollarama to be one of the best long-term investment opportunities in the market today.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:DOL (Dollarama Inc.)



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