



Should You Buy, Sell, or Hold Dollarama Inc. Following its Strong Q4 Report?

Description

Dollarama Inc. ([TSX:DOL](#)), the largest owner and operator of dollar stores in Canada, announced fourth-quarter earnings results for fiscal 2015 on the morning of March 25 and its stock has responded by rising over 2%. Let's take a thorough look at the quarterly results to determine if we should consider buying in to this rally or if we should wait for it to subside.

Breaking down the fourth-quarter results

Here's a summary of Dollarama's fourth-quarter earnings results compared to what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	\$0.76	\$0.70	\$0.59
Revenue	\$669.09 million	\$680.42 million	\$582.29 million

Source: *Financial Times*

Dollarama's diluted earnings per share increased 28.8% and its revenue increased 14.9% compared to the fourth quarter of fiscal 2014. These very strong results can be attributed to three primary factors.

First, the company added 81 new stores from the year-ago period, and its existing locations experienced a significant increase in customer traffic, with comparable-store sales increasing an impressive 8.5%.

Second, total costs of sales and selling, general, and administrative expenses increased just 14.2% and 16.6% respectively from the year-ago period, showing that Dollarama was able to keep its expenses under control.

Third, the weighted average number of common shares outstanding during the fourth quarter was approximately 131.89 million, a decrease of 6.8% from the year-ago period.

Here's a quick breakdown of eight other notable statistics from the report compared to the year-ago period:

1. Gross profit increased 16.1% to \$259.33 million
2. Gross margin expanded 40 basis points to 38.8%
3. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 15.8% to \$151.27 million
4. EBITDA margin expanded 20 basis points to 22.6%
5. Operating profit increased 19.8% to \$140.9 million
6. Operating margin expanded 90 basis points to 21.1%
7. Opened 27 net new stores during the quarter, bringing its total store count to 955
8. Net debt increased 59.4% to \$528.64 million

Dollarama also announced a 12.5% increase to its quarterly dividend to \$0.09 per share, and the first increased payment will come on May 7 to shareholders of record at the close of business on April 29.

Is Dollarama the top retail stock to buy today?

Even after the post-earnings pop in Dollarama's stock, I think it represents an intriguing long-term investment opportunity. I think this because the stock still trades at attractive valuations, including 30.9 times fiscal 2015's earnings per share of \$2.21 and just 26.5 times fiscal 2016's estimated earnings per share of \$2.57, both of which are inexpensive compared to its long-term growth potential.

With all of the information provided above in mind, I think Dollarama represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and consider beginning to scale in to long-term positions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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