Should Dollarama Inc. Be Your Go-To Retail Stock?

Description

Dollarama Inc. (TSX:DOL), the largest owner and operator of dollar stores in Canada, announced better-than-expected first-quarter earnings results before the market opened on June 10, and its stock has responded by rising over 2%. Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for it to subside.

Surpassing expectations with ease

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

Metric	Q1 2016	Estimates	Q1 2015
Diluted Earnings Per Share	$0.50	$0.47	$0.39
Revenue	$566.07 million	$563.72 million	$501.14 million

Source: Financial Times

Dollarama's diluted earnings per share increased 28.2% and its revenue increased 13% compared with the first quarter of fiscal 2015. The company's very strong earnings-per-share growth can be attributed to its net income increasing 21.7% to $64.78 million, which was helped by its total costs of sales increasing just 11.9% to $362.28 million, and its selling, general, and administrative expenses increasing just 7.2% to $97.87 million. Its very strong revenue growth can be attributed to its addition of 73 new stores over the last year, bringing its total store count to 972, as well as 6.9% increase in same-store sales.

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

1. Gross profit increased 14.8% to $203.79 million
2. Gross margin expanded 60 basis points to 36%
3. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 22.4% to

$105.92 million
4. EBITDA margin expanded 150 basis points to 18.7%
5. Operating profit increased 22.4% to $94.77 million
6. Operating margin expanded 130 basis points to 16.7%

Dollarama also announced that it will be maintaining its quarterly dividend of $0.09 per share, and the next payment will come on August 5 to shareholders of record at the close of business on July 6.

Should you buy shares of Dollarama today?

It was a great quarter for Dollarama, so I think the post-earnings pop in its stock is warranted. I also think this could be the beginning of a sustained rally to new all-time highs because the stock still trades at inexpensive valuations and shows a strong dedication to maximizing shareholder value.

First, Dollarama's stock trades at just 28 times fiscal 2016's estimated earnings per share of $2.60 and only 23.9 times fiscal 2017's estimated earnings per share of $3.04, both of which are very inexpensive compared with its long-term growth potential.

Second, Dollarama pays an annual dividend of $0.36 per share, which gives its stock a 0.5% yield at today's levels. A 0.5% dividend yield is far from impressive, but it is very important to note that the company has increased its annual dividend payment for three consecutive years, and its increased amount of free cash flow could allow for a significant increase in 2016.

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

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

Category

1. Investing
2. Stocks for Beginners

Date
2025/10/01
Date Created
2015/06/10
Author
jsolitro