



## 4 Reasons Why Dollarama Inc. Is the Top Retail Stock to Buy Today

### Description

**Dollarama Inc.** ([TSX:DOL](#)), the largest owner and operator of dollar stores in Canada, has been one of the top performing stocks in 2015, rising more than 21% as the TSX Composite Index has returned just over 0.5%. I think it could continue to outperform over the next several years. Let's take a look at four of the primary factors that could send its shares higher in both the short and long term and why you should consider establishing a position today.

#### 1. Double-digit first-quarter growth to support a continued rally

Dollarama released very strong and better-than-expected first-quarter earnings results on the morning of June 10, and its stock has responded by rising over 1.5% in the trading sessions since. Here's a breakdown of the most notable statistics from the report compared to the year-ago period:

- Net income increased 21.7% to \$64.78 million
- Earnings per share increased 28.2% to \$0.50, surpassing analysts' expectations of \$0.47
- Revenue increased 13% to \$566.07 million, surpassing analysts' expectations of \$563.72 million
- Same-store sales increased 6.9%
- Gross profit increased 14.8% to \$203.79 million
- Gross margin expanded 60 basis points to 36%
- Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 22.4% to \$105.92 million
- EBITDA margin expanded 150 basis points to 18.7%
- Operating profit increased 22.4% to \$94.77 million
- Operating margin expanded 130 basis points to 16.7%

#### 2. Its stock trades at attractive forward valuations

At today's levels, Dollarama's stock trades at just 27.4 times fiscal 2016's estimated earnings per share of \$2.63 and only 23.3 times fiscal 2017's estimated earnings per share of \$3.09, both of which are inexpensive compared to the industry average price-to-earnings multiple of 30.7 and its long-term growth rate.

I think Dollarama's stock could consistently command a fair multiple of at least 30, which would place its shares upwards of \$78.75 by the conclusion of fiscal 2016 and upwards of \$92.50 by the conclusion of fiscal 2017, representing upside of more than 9% and 28%, respectively, from current levels.

### **3. Significant expansion potential**

At the conclusion of the first-quarter of fiscal 2016, Dollarama's total store count came in at 972, an increase of 73 from the year-ago period, but I think there is still ample room for expansion. To be more specific, I think it could easily add 100 stores a year over the next five years, bringing its total count to around 1,500 by the conclusion of 2020, which combined with consistent same-store sales growth, could lead to its revenues and net income doubling compared to fiscal 2015.

### **4. Three consecutive years of dividend increases**

Dollarama pays a quarterly dividend of \$0.09 per share, or \$0.36 per share annually, giving its stock a 0.5% yield at today's levels. A 0.5% yield may not seem like a legitimate reason for owning the stock at first, 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 this streak to continue for the next several years.

### **Is there a place for Dollarama in your portfolio?**

I think Dollarama could continue to outperform the overall market for the next several years, because its very strong first-quarter earnings results could support a sustained rally, because its stock trades at inexpensive forward valuations, because it has ample room for expansion, and because it has shown a strong dedication to maximizing shareholder value through the payment of dividends. Foolish investors should take a closer look and strongly consider making it a core holding today.

### **CATEGORY**

1. Investing

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1. Editor's Choice

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1. TSX:DOL (Dollarama Inc.)

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1. Editor's Choice

### Date

2025/10/01

### Date Created

2015/06/15

### Author

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