After an 800% Run, Dollarama Inc. Shares Are Finally on Sale

Description

Dollarama Inc. (TSX:DOL) has been one of the most successful stocks in the TSX over the past six years, rising an incredible 800% versus an index return of just 11%. Total profits have nearly tripled over that time, while shares outstanding have actually fallen by 11%, resulting in remarkable earnings-per-share growth.

Impressive historical results are what make the last three months interesting for Dollarama stock. In the past 90 days, shares have fallen by almost 20%, roughly double the decline of the TSX overall. However, earnings estimates for next year, which are around $3.24 a share, haven't changed much. Even more optimistic, analysts anticipate profits to grow by an average of 18.4% a year for the next five years.

Despite the selloff, shares don't get much attention. As a $9 billion company, an average of only 550,000 shares trade per day. Compare this to similarly sized **Pembina Pipeline Corp.**, which averages over 1.1 million shares per day. As a thinly traded stock, informed investors may be able to capitalize on inefficiently priced shares.

Not much to complain about

The future remains bright. Over the next 12 months the company expects to open an additional 60-70 new stores, representing a 6-7% growth rate to around 1,100 locations.

While margins will be lower (gross margins will be 2% lower than last year and EBITDA margins will fall by 1.5%), the decline likely has more to do with currency fluctuations than the health of the underlying business. So this year the company should continue growing at a similar pace, while profitability declines are slight and likely temporary.

Looking past 2016, Dollarama is looking to grow to 1,200 and 1,400 locations in coming years, while a recent report from Industrial Alliance Securities shows that demand in Canada can support 2,400 dollar stores (currently, there are only 1,900 dollar stores in operation). With **Dollar Tree, Inc.** and **Family Dollar Stores, Inc.** focusing on their U.S. merger, Dollarama may have much of this market to themselves.

Then why are shares down?

Dollarama stock is likely down because it was a bit overpriced before the recent turbulence. Market volatility has disproportionally hit high-valuation stocks, and with Dollarama's past results, its shares were primed for the selloff. After a 20% decline, the stock's valuation is back to historical averages. Shares now trade at 26 times earnings versus a five-year average of 25 times. On a cash flow basis, shares trade at 24 times cash flow, in line with its five-year average.

While Dollarama stock is far from cheap, investors would have profited massively any time over the past six years if they simply bought at a "fair" price. With valuation metrics back to reasonable levels and the future looking similarly bright, Dollarama stock should make a dependable long-term holding.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

Category

1. Investing

Date
2025/08/26
Date Created
2016/01/15
Author
rvanzo