



Dollarama Inc.'s Q4 EPS Soars 31.6%: Should You Buy Now?

Description

Dollarama Inc. ([TSX:DOL](#)), the largest owner and operator of dollar stores in Canada, released better-than-expected fourth-quarter earnings results on March 30, and its stock has responded by rallying over 4%. Let's take a closer look at the results and the fundamentals of its stock to determine if we should consider buying in to this rally or if we should wait for it to subside.

The results that soared past expectations

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

Metric	Q4 2016 Actual	Q4 2016 Expected	Q4 2015 Actual
Earnings Per Share	\$1.00	\$0.93	\$0.76
Revenue	\$766.48 million	\$751.56 million	\$669.09 million

Source: *Financial Times*

Dollarama's earnings per diluted share increased 31.6% and its revenue increased 14.6% compared with the fourth quarter of fiscal 2015. Its immense earnings-per-share growth can be primarily attributed to its increased sales and improvement in its gross margin, which led to its net earnings increasing 24.5% to \$124.82 million.

Its very strong revenue growth can be primarily attributed to two factors. First, Dollarama's organic sales growth continued in the fourth quarter, driven by its comparable-store sales increasing 7.9%, including a 3.5% increase in the average transaction size and a 4.2% increase in the number of transactions. Second, the company added 75 net new stores over the last year, allowing it to reach more markets and customers.

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

1. Gross profit increased 20.7% to \$312.95 million
2. Gross margin improved 200 basis points to 40.8%
3. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 25.5% to \$189.88 million
4. EBITDA margin improved 220 basis points to 24.8%
5. Operating income increased 25.6% to \$176.93 million
6. Operating margin improved 200 basis points to 23.1%
7. Opened 25 net new stores during the quarter compared with 27 net new stores opened in the year-ago period
8. Ended the quarter with 1,030 stores

Dollarama also announced an 11.1% increase to its quarterly dividend to \$0.10 per share, and the next payment will come on May 4 to shareholders of record at the close of business on April 22.

Should you buy in to or avoid the rally?

It was a fantastic quarter overall for Dollarama, so I think the market has reacted correctly by sending its shares higher. I also think this could be the start of a sustained rally higher and that the stock is a strong buy today for three reasons.

First, it's undervalued. Dollarama's stock trades at just 29 times fiscal 2016's earnings per share of \$3.00 and only 27 times fiscal 2017's estimated earnings per share of \$3.22, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 41.5.

Second, it has immense expansion potential. Dollarama now operates a total of 1,030 stores in Canada, but I think it could easily have over 1,500 by 2025, and I think it could do this without ever running into issues related to market densification. I also think the company could begin expanding into the United States within the next five to 10 years, which would be a major catalyst for growth and propel its potential store count significantly higher.

Third, it's a dividend-growth play. Dollarama now pays an annual dividend of \$0.40 per share, which gives its stock a yield of about 0.5% at today's levels. Investors must also note that it has raised its annual dividend payment for four consecutive years, and the 11.1% hike it just announced puts it on pace for fiscal 2017 to mark the fifth consecutive year with an increase.

With all of the information provided above in mind, I think all Foolish investors should strongly consider beginning to scale in to long-term positions in Dollarama today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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