5 Reasons Why Dollarama Inc. Is a Strong Buy Today

Description

Dollarama Inc. (TSX:DOL), Canada's largest owner and operator of dollar stores, has widely outperformed the overall market in 2016, rising about 12% year to date and over 17% in the last month, and I think it will continue to do so going forward for five primary reasons. Let's take a closer look at these reasons to see if you agree and if you should take it one step further by initiating a position in it today.

1. Its strong financial results could support a continue rally

On March 30, Dollarama released very strong earnings results for its fiscal year ended on January 31, 2016, and its stock has responded by rising over 8% in the trading sessions since. Here's a quick breakdown of 12 of the most notable statistics from fiscal 2016 compared with fiscal 2015:

1. Net earnings increased 30.4% to $385.1 million
2. Net earnings per diluted share increased 35.7% to $3.00
3. Revenue increased 13.7% to $2.65 billion
4. Comparable-store sales increased 7.3%, including a 5.2% increase in the average transaction size and a 1.9% increase in the number of transactions
5. Gross profit increased 20.2% to $1.03 billion
6. Gross margin improved 210 basis points to 39%
7. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 29.6% to $597.5 million
8. EBITDA margin improved 270 basis points to 22.5%
9. Operating income increased 30% to $549.4 million
10. Operating margin improved 260 basis points to 20.7%
11. Opened 75 net new stores, bringing its total count to 1,030
12. Weighted-average number of diluted common shares outstanding decreased 4.1% to 128.42 million

2. It's undervalued based on both current and forward valuations

At today's levels, Dollarama's stock trades at 29.8 times fiscal 2016's earnings per share of $3.00, just 26.3 times fiscal 2017's estimated earnings per share of $3.40, and only 23 times fiscal 2018's estimated earnings per share of $3.89, all of which are inexpensive compared with its five-year average price-to-earnings multiple of 41.3. These multiples are also inexpensive given the company's 14.9% long-term earnings growth rate.

3. It has ample room for further expansion

As mentioned before, Dollarama had 1,030 stores in operation as of its fiscal year ended on January 31, 2016, and it plans to open another 60-70 stores in fiscal 2017. I think the company could easily have over 1,500 stores in Canada by 2025 without ever running into issues related to market densification. I think it could also explore the option of expanding into the northern United States within the next five years, where it could easily have over 5,000 stores one day.

4. Its share repurchases will continue to help drive EPS growth

Dollarama has been constantly repurchasing its shares over the last few years, including 9.3 million shares for a total cost of about $436.2 million in fiscal 2015 and 7.7 million shares for a total cost of about $625.4 million in fiscal 2016, and it has a program in place to continue doing so. These repurchases show that the company is fully dedicated to maximizing shareholder value and they will continue to play a major role in its earnings-per-share growth going forward.

5. It's a dividend-growth play

Dollarama pays a quarterly dividend of $0.10 per share, or $0.40 per share annually, which gives its stock a yield of about 0.45% at today's levels.

A 0.45% yield is far from impressive, but it is also important to make two notes.

First, the company has raised its annual dividend payment for four consecutive years, and its 11.1% hike in March has it on pace for fiscal 2017 to mark the fifth consecutive year with an increase.

Second, I think Dollarama's very strong growth of cash flows from operating activities, including its 26.2% year-over-year increase to $449.2 million in fiscal 2016, and its low payout ratio will allow its streak of annual dividend increases to continue for the foreseeable future.

Is there a place for Dollarama in your portfolio?

I think Dollarama will continue to outperform the overall market in the months and years ahead, so all Foolish investors should strongly consider establishing long-term positions in it today.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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