Dollarama Inc.’s Q1 EPS Jumps 36%: Is Now the Time to Buy?

Description

Dollarama Inc. (TSX:DOL), Canada’s largest owner and operator of dollar stores, reported better-than-expected first-quarter earnings results on the morning of June 8, and its stock has responded by rising over 1%. Let’s break down the results, two other important announcements made by the company, 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.

A very strong quarter of +10% top- and bottom-line growth

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

Metric	Q1 2017 Actual	Q1 2017 Expected	Q1 2016 Actual
Diluted Earnings Per Common Share	$0.68	$0.63	$0.50
Revenue	$641.01 million	$629.83 million	$566.07 million

Source: Financial Times

Dollarama’s diluted earnings per common share increased 36% and its revenue increased 13.2% compared with the first quarter of fiscal 2016.

Its vast earnings-per-share growth can be attributed to its net earnings increasing 28.4% to $83.15 million and its weighted-average number of diluted shares outstanding decreasing 5.7% to 123.15 million.

Its very strong revenue growth can be attributed to two primary factors. First, it added 66 new stores over the last year, bringing its total store count from 972 to 1,038. Second, its organic sales growth continued in the first quarter, driven by its comparable-store sales increasing 6.6%, which consisted of a 3.7% increase in the average transaction size and a 2.8% increase in the total number of transactions.

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

1. Gross profit increased 16.2% to $236.9 million
2. Gross margin improved 100 basis points to 37%
3. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 26.4% to $133.9 million
4. EBITDA margin improved 220 basis points to 20.9%
5. Operating income increased 27% to $120.4 million
6. Operating margin improved 210 basis points to 18.8%
7. Repurchased 1.54 million shares of its common stock during the quarter for a total cost of approximately $139.3 million
8. Opened eight net new stores during the quarter compared with 17 net new stores opened in the year-ago period

Other notable announcements

Dollarama also made two important announcements.

First, it announced that it received approval from the Toronto Stock Exchange to renew its normal course issuer bid in order to repurchase up to 5.98 million of its common shares, representing about 5% of its total public float, during the 12-month period starting on June 17, 2016, and ending on June 16, 2017.

Second, it announced that it would be maintaining its quarterly dividend of $0.10 per share, and the next payment will come on August 3 to shareholders of record at the close of business on July 8.

What should you do with Dollarama's stock today?

It was another phenomenal quarter for Dollarama, so I think the market has responded correctly by sending its shares higher. I also think the stock will continue higher from here and that it represents a great long-term investment opportunity today for three primary reasons.

First, it's a great value and growth play. Dollarama's stock trades at just 27.7 times fiscal 2017's earnings per share of $3.38 and only 24.2 times fiscal 2018's estimated earnings per share of $3.87, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 41.1. The multiples are also inexpensive given its estimated 14.8% long-term earnings growth rate.

Second, it has immense expansion potential. Dollarama now operates a total of 1,038 stores in Canada, and it plans to open another 52-62 stores in fiscal 2017. I think it could easily open at least 50 new stores per year through 2025, and this could be accomplished without ever running into issues related with market densification.

Third, it's a dividend-growth play. Dollarama pays an annual dividend of $0.40 per share, which gives its stock a yield of about 0.4% at today's levels. A 0.4% yield is not high by any means, but the company's 11.1% dividend hike in March has it on pace for fiscal 2017 to mark the fifth consecutive year in which it has raised its annual dividend payment, and I think its strong growth and low payout ratio could allow this streak to continue for decades.

With all of the information provided above in mind, I think Dollarama represents one of the best long-term investment opportunities in the market. All Foolish investors should strongly consider beginning to scale in to positions today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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