Why Dollarama Inc. Is the Only Retail Stock You Need

Description

Dollarama Inc. (TSX:DOL) reported very impressive earnings this month following several quarters of impressive results. Industry experts and analysts mostly agree that the company may very well be the best retail stock for investors at the moment.

Let's take a look at the stock and why this statement is true.

For those who haven't been to one of the company's +1,000 locations, Dollarama is the epitome of what the dollar-store model should be. Shoppers enter for the one or two items they need, and within a few minutes they have a shopping cart full of items all priced below $4. I can firmly attest to this from personal experience: you can't leave the store with just one item.

As magnifying as the shopping experience is in the store, that's not the main reason to invest in the company. Let's start with a look at that great quarter the company just had.

Dollarama's recent quarterly results show real promise and strength

In the most recent quarter, the company posted a 13% increase in sales, which topped $641 million. This included comparable-store sales, which grew at 6.6%. EBITDA came in at $133.9 million, representing an impressive 26.4% increase. Operating income came in at $120.4 million, showing strong growth of 27% for the quarter.

In all, the company posted diluted net earnings of $0.68 per share, a 36% increase for the quarter. Along with the across-the-board, strong sales numbers, the company also announced a net eight new stores opened in the quarter.

Dollarama's stock currently trades at approximately $90.59 with the stock up by a very impressive 13.42% year-to-date. Looking over a full 12-month period reveals the stock is up by nearly 22%, and looking out even further back shows that Dollarama is up nearly 72% in the past two years.

Clearly, long-term growth is the benefit of holding this stock, but fortunately Dollarama also pays out a dividend. The current quarterly dividend payout amounts to $0.10 per share, giving the stock a yield of

0.44% at current prices. Again, growth is the focus of this stock, not the dividend, which should see some growth given the company's recent results.

Looking beyond the results, Dollarama is clearly set on expansion. The company has plans to open up to 70 new stores this year, and there's the potential for expansion in the international market. The company already has an agreement with Dollar City, which has locations in Guatemala and El Salvador. Under the terms of that agreement, Dollarama may choose to purchase the chain in 2019 when the deal expires.

Timing is everything

During weaker economic periods, consumers will typically flock to dollar stores to buy more for less of what is needed. Down periods are typically the biggest boom periods for dollar stores. For Dollarama, this couldn't be further from the truth.

Throughout the years, the company has introduced new price points; Dollarama has stocked larger, higher-quality goods as revenues increased or priced existing merchandise higher.

With the value of the loonie fluctuating greatly over the past few months, this has been a key sore point for the company. The majority of goods that Dollarama sells are made in the Chinese market, where that currency has also been under a lot of stress. So a weak loonie means that less goods can be purchased, and a weak yuan and higher wages in China results in less goods (for the current price) available for purchase. The end result is an increase in prices and sometimes bundling of goods.

Dollarama is, in my opinion, the best retail growth stock on the market today. The company continues to grow in a difficult market and is backed by strong financials balanced with aggressive yet smart growth.

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1. Investing

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1. Editor's Choice

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Author
dafxentiou