5 Reasons Why Dollarama Inc. Should Be on Your Buy List

Description

Dollarama Inc. (TSX:DOL) is Canada's largest owner and operator of dollar stores, and I think its stock is a strong buy today for five reasons. Let's take a closer look at these reasons to see if you agree and if you should be a long-term buyer of the stock today.

1. Its very strong earnings results could support a near-term rally

Earnings play a major role in a stock's performance in the quarter in which they are released, and on June 8 Dollarama released very strong and better-than-expected earnings results for its three-month period ended on May 1, 2016. Here's a breakdown of 12 of the most notable statistics from the first quarter of fiscal 2017 compared with the first quarter of fiscal 2016:

1. Net earnings increased 28.4% to $83.15 million
2. Net earnings per diluted share increased 36% to $0.68, surpassing analysts' expectations of $0.63
3. Revenue increased 13.2% to $641.01 million, surpassing analysts' expectations of $629.83 million
4. Comparable-store sales increased 6.6%, which included a 3.7% increase in the average transaction size and a 2.8% increase in the total number of transactions
5. Gross profit increased 16.2% to $236.9 million
6. Gross margin improved 100 basis points to 37%
7. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 26.4% to $133.9 million
8. EBITDA margin improved 220 basis points to 20.9%
9. Operating income increased 27% to $120.4 million
10. Operating margin improved 210 basis points to 18.8%
11. Repurchased 1.54 million shares of its common stock during the quarter for a total cost of approximately $139.3 million
12. Weighted-average number of diluted shares outstanding decreased 5.7% to 123.15 million

2. Its stock trades in inexpensive forward valuations

Dollarama's very strong earnings results in the first quarter of fiscal 2017 could help kick-start a near-term rally, and the fact that its stock is undervalued could help it transform into a long-term rally.

Its stock trades at just 25.8 times fiscal 2017's earnings per share of $3.47 and only 22.5 times fiscal 2018's estimated earnings per share of $3.98, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 28 and the industry average multiple of 27.9. These multiples are also very inexpensive given its estimated 16.7% long-term earnings-growth rate.

3. It has been actively repurchasing its shares

Dollarama has been actively repurchasing its shares over the last few years, which has played and will continue to play a major role in its earnings-per-share growth, and it also shows that the company believes its stock is undervalued.

It repurchased 9.3 million shares for a total cost of about $436.2 million in fiscal 2015, 7.7 million shares for a total cost of about $625.4 million in fiscal 2016, and 1.5 million shares for a total cost of about $139.3 million in the first quarter of fiscal 2017.

Also, in its first-quarter earnings report on June 8, it announced that it received approval from the Toronto Stock Exchange to renew its normal course issuer bid, allowing it to repurchase up to 5.98 million of its common shares during the 12-month period starting on June 17, 2016 and ending on June 16, 2017.

I think the company will complete this repurchase plan in the time frame provided and then announce a new plan shortly thereafter.

4. It has massive expansion potential

Dollarama has continued to achieve very strong year-over-year growth at its existing stores, and it also has massive expansion potential, making it one of the top growth plays in the retail sector.

It currently has 1,038 stores in Canada, and it plans to open another 52-62 by the conclusion of its fiscal year ending on January 29, 2017. I think the company will reach this goal, and I think it could easily open at least 50 new stores every year through 2025 without ever running into issues related to market densification.

5. It has shown a deep dedication to growing its dividend

As history has shown, dividend-paying stocks outperform non-dividend-paying stocks over the long term, and the top returners are those that raise their dividends every year. High-growth companies generally don't pay dividends, but Dollarama does, and although its yield is not high, it has shown a deep dedication to growing its payout.

It 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. It's also very important to note that its 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 very strong financial performance will allow this streak to continue for the foreseeable future.

Should you buy Dollarama today?

I think Dollarama is a strong buy, so if you agree, take a closer look and consider initiating a position today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

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