



Dollarama Inc.: Is it Too Late to Invest in Canada's Top Retailer?

Description

It's been a heck of a run for **Dollarama Inc.** ([TSX:DOL](#)) since its 2009 IPO.

The company started trading at \$9 per share (split adjusted) and started going up almost immediately. Shares had tripled by mid-2012, and then tripled again by the latter part of 2015. After selling off with the rest of the market early this year, shares shot up again, recently hitting an all-time high of \$97.12.

That's a heck of a ride from just \$9.

Or to put it another way, Dollarama shares have increased more than 41% annually if investors reinvested their dividends. A \$10,000 investment in the company on its IPO date would be worth more than \$103,000 today.

Looking backwards can be interesting sometimes, but it's of little use for investors who are interested in Dollarama shares today. Can the company expect more greatness going forward, or have shares topped out?

Let's take a closer look at the company many investors think is Canada's top retailer.

Growth

Dollarama has always been a growth story.

Revenue in 2009 was just under \$1.1 billion with net profit coming in at a slight loss of \$0.18 per share. Compare that to the company's last 12 months, where it posted revenue of \$2.7 billion and a profit of \$3.19 per share, all while increasing operating margins to 21.1%.

Even on a year-over-year basis the company's growth is impressive. In its most recent quarter, Dollarama reported sales of \$641 million, an increase of 13.2% overall. Same-store sales increased 6.6%.

Gross margins increased 1% from 36% to 37%, and the company posted nice spikes in EBITDA and

operating income. And most importantly, net income shot up, increasing from \$0.50 to \$0.68 per share.

With a store count that recently surpassed 1,000, many investors might think Dollarama's best days of growth are behind it. That might be true. But the company still has plenty of expansion potential.

Firstly, management plans to open between 60 and 70 new stores this fiscal year alone and doesn't look primed to slow down anytime soon. Additionally, according to an analyst report from 2015, the Canadian economy can handle at least another 1,000 dollar stores before it gets as saturated as the U.S. market. Sure, competition exists, but Dollarama is the best suited to capture this untapped demand.

Finally, there's the potential for international expansion. Dollarama has a partnership with Dollar City, a fast-growing chain of dollar stores in Central America. It's likely only a matter of time before it buys the company.

Valuation

Here's where Dollarama gets a little tricky. The company's fantastic growth has led investors to bid up the price to the point where shares are quite expensive.

Over the last 12 months, Dollarama earned \$3.19 per share. Divide that by the company's recent share price of \$96.83, and we get a price-to-earnings ratio of 30.3. Even though we're living in a world with higher-than-usual valuations—caused by low interest rates, or so say the pundits—Dollarama is still expensive.

On a forward earnings basis, things do look better. Earnings are expected to hit \$3.45 per share during this fiscal year and \$3.94 per share next year. That gives the company forward P/E ratios of 28.1 and 24.6, respectively.

When looking at earnings history, Dollarama has a history of beating analyst expectations. The last time it missed estimates was back in mid-2013. So perhaps analyst expectations are a little low.

Still, the overall message is obvious. Value investors will want nothing to do with Dollarama. It's a very expensive stock.

Should you buy Dollarama?

My concern with Dollarama is what happens when the growth slows. At that point, Dollarama's premium valuation will likely turn to something more normal, which would likely mean a decline in the price.

But at the same time, the company still has a lot of growth potential left. It could easily stay at a premium valuation for years, which would ensure nice profits for investors who get in today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

Category

- 1. Dividend Stocks
- 2. Investing

Date

2025/09/11

Date Created

2016/07/22

Author

nelsonpsmith

default watermark

default watermark