# Why Dollarama Inc. Is up Over 1% Today

## Description

**Dollarama Inc.** (TSX:DOL), Canada's largest owner and operator of dollar stores, reported better-than-expected second-quarter earnings results this morning, and its stock has responded by rising over 1%.



Let's break down the quarterly report to determine if this could be the start of a sustained rally higher and if we should be long-term buyers of the stock today.

**A very strong quarter of double-digit growth**

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

| **Metric** | **Q2 2017 Actual** | **Q2 2017 Expected** | **Q2 2016 Actual** |
|---|---|---|---|
| Sales | $728.97 million | $726.55 million | $653.29 million |
| Diluted Earnings Per Common Share | $0.88 | $0.84 | $0.74 |

*Source: Financial Times*

Dollarama's sales increased 11.6% and its diluted earnings per common share increased 18.9% compared with the second quarter of fiscal 2016.

The company noted that its very strong sales growth could be attributed to two primary factors.

First, its organic sales growth continued in the second quarter, fueled by its comparable-store sales increasing 5.7%, over and above its 7.9% growth in the year-ago period, and this growth included a 4.6% increase in the average transaction size and a 1% increase in the total number of transactions. Second, it has continued to expand over the last 12 months; its total store count reached 1,051 on July 31, 2016, compared with 989 on August 2, 2015.

It also noted that its immense earnings-per-share growth could be attributed to its aforementioned sales growth and lower selling, general, and administrative expenses as a percentage of sales, which led to its net earnings increasing 11.4% to $106.35 million, and this growth was amplified by its weighted-average number of diluted shares outstanding decreasing 6.9% to 120.66 million as a result of its ongoing share-repurchase activity.

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

1. Gross profit increased 11.6% to $279.58 million
2. Gross margin remained unchanged at 38.4%
3. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 14.8% to $168.64 million
4. EBITDA margin improved 60 basis points to 23.1%
5. Operating income increased 14.5% to $154.63 million
6. Operating margin improved 50 basis points to 21.2%
7. Repurchased 2.03 million of its common shares for a total cost of approximately $184.2 million
8. Opened 13 net new stores during the quarter compared with 17 net new stores opened in the year-ago period

Dollarama also announced that it would be maintaining its quarterly dividend of $0.10 per share, and the next payment will come on November 2 to shareholders of record at the close of business on September 30.



**Should you buy Dollarama today?**

It was an outstanding quarter in every way for Dollarama, so I think the market has responded correctly by sending its stock higher, and I'm still bullish on it for the long term for three primary reasons.

First, it trades at very attractive valuations based on its growth. Dollarama's stock still trades at just 28.2 times fiscal 2017's earnings per share of $3.48 and only 24.5 times fiscal 2018's estimated earnings per share of $4.01, both of which are very inexpensive given its estimated 17% long-term earnings-growth rate. With a growth rate this high, I think its stock could consistently and safely trade at a forward multiple of about 30.

Second, it could continue to grow its store count. Dollarama now operates a total of 1,051 stores, and it plans to open another 39-49 before the end of fiscal 2017. I think it could easily average 50 net new store openings annually through 2025, and I think it could do this while keeping its expenses under control and while avoiding issues related to 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% today. A 0.4% yield is far from high, but it's very important to note that its 11.1% 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.

I think its very strong growth rate and its high profitability could allow this streak to continue for decades, and this will amplify its shareholders' returns going forward, especially if the dividends are reinvested.

All in all, I think Dollarama is one of the best long-term investment opportunities in the market today. All Foolish investors should strongly consider making it a core holding.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:DOL (Dollarama Inc.)

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1. Investing

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