The Most Successful Retailer in Canada Just Got Better

Description

Most would agree that **Dollarama Inc**. (TSX:DOL) currently takes the crown as being the most successful retailer in the country. And while the market has been firing on all cylinders for the past few years, talk of a slowdown and correction doesn't seem to be a concern for Dollarama.

Dollarama provided the latest quarterly update this week which showed the strength of the company and the opportunity the market still has for Dollarama to expand even further.

Quarterly results

For the fourth quarter of fiscal 2017, Dollarama reported net earnings of $146.1 million, or $1.23 per diluted common share, representing an impressive increase over the $124.8 million, or $1.00 per diluted common share, in the same quarter last year.

Dollarama reported sales of $854.5 million in the quarter — an increase of 11.5% over the same quarter last year. Comparable same-store sales increased by 5.8% for the quarter — over and above the 7.9% growth registered in the previous year. EBITDA grew by 19.1%, coming in at $226.2 million, representing 26.5% of sales.

Dollarama also announced a 10% increase to the quarterly dividend, which will now pay $0.11 per common share. Even with the latest increase, the stock is unlikely to be seen as a great income-producing investment, as the yield is far below 1%.

Growing trend in prices

One of the often-cited concerns relating to Dollarama is how the company is being squeezed because of the weakened loonie. As the loonie drops, Dollarama's buying power to purchase goods to sell drops, resulting in downward pressure on Dollarama's margins.

As most of the products that Dollarama sells come from foreign markets, this concern is legitimate. Dollarama has done well in the past by countering any price pressure on imported products by adding higher price points for some products, or reducing existing bundled products. This has not only been a successful strategy for Dollarama, but the higher price point has also exposed a host of new, more expensive products the company can sell.

Dollarama noted in the quarterly update that 64.3% of products sold carried a price of $1.25 or higher, whereas in the same quarter last year, that figure was just 59.4%.

Can Dollarama continue to grow?

Dollarama's epic rise to the top of retail in Canada is an impressive one. But how long Dollarama can continue to grow? And how many more dollar stores can the Canadian market support?

Dollarama maintains a strong flow of traffic in its stores, and sales figures continue to affirm what just about anyone who has stepped into a Dollarama knows — you rarely leave the store with just one item. Dollarama knows this and is set to up the ante further by announcing that all locations will accept credit card payments over the next few quarters, following a successful pilot launch in selective markets across the country.

Furthermore, Dollarama surpassing the 1,100-location mark doesn't seem to have slowed the growth of the company; if anything, the company is anticipating stronger growth. During the recent quarterly update, management noted that the potential for additional stores remains strong in Canada; they upped the long-term target of stores from 1,400 to 1,700 over the next several years.

Even at that level, the dollar store market won't be near the saturation level that exists in the U.S. market.

Dollarama is, in my opinion, a great investment opportunity for those investors looking for a retail stock that has long-term growth potential.

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Date
2025/07/29
Date Created
2017/03/31
Author

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