



## Dollarama Inc.: This Fantastic Growth Stock Just Will Not Quit

### Description

**Dollarama Inc.** ([TSX:DOL](#)) came out with its fourth-quarter results on Thursday, and they were excellent on all fronts.

The company posted a net quarterly profit of \$1.24 per share, easily surpassing analyst expectations of \$1.12. That was a 24% increase versus the same quarter last year. Total sales increased 11.5%, while the all-important same-store-sales category increased 5.8%.

Full-year results were equally exciting. Total sales increased 11.8% while same-store sales ticked up 5.8%. The gross margin was 39.2%, an increase versus fiscal 2016's results. Diluted earnings per share were up nearly 24%, increasing to \$3.71 per share. Earnings in 2016 were \$3 per share.

The chain also announced it would be hiking its quarterly dividend 10% from \$0.10 per share to \$0.11.

These results are terrific, and Dollarama shares responded in kind. They shot up during Thursday's trading session, rising more than 11% to \$110.88. That's a new all-time high.

Perhaps the most exciting part of Dollarama's results weren't the earnings themselves. The company still has big growth plans.

### Growth potential

Dollarama has two major growth paths. The first is growing the average transaction size in existing stores. The second is opening more locations.

It has already done a lot to get customers to spend more. Locations used to be filled with items selling for a dollar or two. These days, merchandise with \$3.50 and \$4 price tags is common. By upping its price limit, Dollarama has successfully increased its average transaction size.

The company also announced it would start taking credit cards at all of its stores, which should help encourage customers to spend more.

Dollarama's store growth plan is truly exciting. The company has approximately 1,100 locations today, and it previously had plans for approximately 1,400 over the long term. It has upped that projection; it now wishes to bump its location count to 1,700 in the next eight to 10 years. Management envisions some cannibalization of sales as it approaches its 1,700-store limit, but they insist the company can still pay back the average store in two years.

Nothing was mentioned in the latest earnings report, but Dollarama still has an interesting ace up its sleeve. In 2013, it entered an agreement with Dollar City, a Central American chain of dollar stores, to provide business expertise and logistical support. That deal came with an option to acquire the chain. I expect Dollarama to exercise that option at some point relatively soon.

Finally, we have to mention Dollarama's balance sheet, which I believe can handle the expected expansion. It owes a little over \$1 billion in long-term debt, which is a reasonable number. Dollarama spent \$696 million buying back shares in its most recent fiscal year and an additional \$652 million the year before. If needed, it can direct that capital towards keeping its debt down.

### **Dividend potential**

At this point, Dollarama isn't really considered a dividend stock. When accounting for the dividend hike, the stock pays out just \$0.44 per share on an annual basis. That's a yield under 0.4%.

There's nothing exciting about that.

But the company should eventually get serious about paying a dividend. Remember, it spent nearly \$700 million in share buybacks in the last year alone. Net earnings were \$445 million. It can afford to pay much more.

Dollarama has a dividend-payout ratio of just 12%. It could triple the payout while still having enough cash left over to finance its growth plans.

What does this mean for investors? It means Dollarama is the perfect kind of dividend-growth stock to stick in your RRSP for 20 years and forget about. If it works out and the name matures into a serious dividend stock, you'll have a terrific yield on cost.

### **The bottom line**

Dollarama is an expensive stock. Shares trade hands at nearly 30 times trailing earnings.

That's simply the price investors must pay for a decent growth story today. If everything goes to plan, Dollarama still plenty of growth potential left. There aren't many opportunities like that in today's market. Growth investors, take notice.

### **CATEGORY**

1. Dividend Stocks
2. Investing

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## **Date**

2025/09/11

## **Date Created**

2017/04/03

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