Dollarama Inc. Is Turning Dollars Into Gold

Description

Dollarama Inc. (TSX:DOL) is a dollar store where you can find a multitude of items, from tools to food, at prices varying between $1 and $4. This retail chain is very successful, and so is its stock. Indeed, Dollarama's share price has risen more than 1,200% since it began trading publicly in 2009.

The company has expanded beyond Canada to Central America, and its sales and profits continue to rise across Canada.

Let's analyze this growth stock to see if it's the right time to buy some shares.

Q1 2018 profit beat estimates, but revenue falls short

Dollarama released its earnings results for fiscal Q1 2018 on June 7. The company reported a better-than-expected profit for the eighth straight quarter, as customers on average spent more at its stores, sending shares to an all-time high of $132.34.

The dollar store reported EPS of $0.82 for the quarter ended April 30, beating the **Thomson Reuters's** consensus estimate of $0.79 by $0.03. The company had revenue of $704.95 million for the quarter, falling short of the consensus estimate of $712.60 million. It had a return on equity of 559.12% and a net margin of 13.43%.

Dollarama keeps prices low by minimizing overhead costs with no advertising and stores without frills. However, the company makes a high-profit margin by selling cheap imitations of more expensive brands.

Dollarama has benefited from higher prices after beginning to sell items priced up to $4 last year. About 65% of its sales in the first quarter came from items priced above $1.25 compared with 60.5% a year earlier.

A factor that helps Dollarama to have such high sales is that there is less competition in the Canadian discount-retail market than in the U.S. market. Retailers such as **Dollar Tree, Inc.** and **Dollar General Corp.** compete fiercely for market share in the United States.

Dollarama also recently announced a quarterly dividend of $0.11 per share, which will be paid on August 2. This is a rise of 10% from the previous dividend of $0.10 per share. The new dividend payment represents a $0.44 dividend on an annualized basis and a yield of 0.36%.

More store openings and new method of payment

Dollarama opened several stores during the last few years and is planning to open more. Indeed, the discount retailer opened 65 stores over the course of the last fiscal year, bringing its total count to 1,095.

It raised its long-term store growth forecast in the process; management thinks the chain can grow to 1,700 stores over the course of the next eight to 10 years, well above its previous forecast of 1,400 outlets.

To increase sales and profits, Dollarama has begun accepting credit cards as a payment method in some of its stores. Every Dollarama will be accepting credit cards by the end of this year. Pilot tests have been run which showed that sales growth will offset credit cards transaction fees.

I think this is a good business decision, since less people are carrying cash with them, and more people use credit cards over debit cards. Since consumers can buy more with a credit card than with cash (unless they're carrying a pile of money with them, which is unlikely), they will be tempted to buy more.

On June 8, the **Royal Bank of Canada** issued a report where it lifted its price target for Dollarama from $138 to $139. The firm presently has an "outperform" rating on the stock. This price target points to a potential upside of about 14% from the stock's current price.

I think Dollarama's stock is a good buy, but I find it a little expensive with a forward P/E of 28.06. However, if you're looking for a growth stock, it's an excellent choice since there is still plenty of room for growth. This defensive stock is a great investment for the long term.

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sbchateauneuf