Why Dollarama Inc. Is up Over 5%

Description

Dollarama Inc. (TSX:DOL), Canada's largest owner and operator of dollar stores, released its fiscal 2018 second-quarter earnings results and raised its guidance for the full year of 2018 on Thursday morning, and its stock has responded by rising over 5% in early trading. Let's break down the quarterly results, the enhanced guidance, and the fundamentals of its stock to determine if we should be long-term buyers today.

A very strong financial performance

Here's a quick breakdown of 12 of the most notable financial statistics from Dollarama's 13-week period ended on July 30, 2017, compared with its 13-week period ended on July 31, 2016:

Metric	Q2 2018	Q2 2017	Change
Sales	$812.49 million	$728.97 million	11.5%
Gross profit	$322.00 million	$279.58 million	15.2%
Gross margin	39.6%	38.4%	120 basis points
EBITDA	$209.21 million	$168.64 million	24.1%
EBITDA margin	25.7%	23.1%	260 basis points
Operating income	$191.91 million	$154.63 million	24.1%
Operating margin	23.6%	21.2%	240 basis points
Net earnings	$131.80 million	$106.35 million	23.9%
Diluted net earnings per share (EPS)	$1.15	$0.88	30.7%
Net cash generated from operating activities	$180.22 million	$166.10 million	8.5%
Comparable store sales growth	6.1%	5.7%	40 basis points
Number of stores	1,125	1,051	7.0%

Enhanced guidance on fiscal 2018

In the press release, Dollarama also provided "enhanced" guidance for fiscal 2018. Here's what the company now expects to accomplish versus its previous expectations:

Metric	Previous Guidance	Enhanced Guidance
Net new stores	60-70	60-70
Gross margin	37.5-38.5%	38.0-39.0%
SG&A	15.0-15.5%	15.0-15.5%

EBITDA margin	22.0-23.5%	22.5-24.0%
Capital expenditures	$90-100 million	$100-110 million
Comparable store sales growth	4.0-5.0%	4.0-5.0%

What should you do with Dollarama's stock now?

The second quarter was highly successful for Dollarama, and it capped off a very strong first half of the year for the company, in which its revenue increased 10.8% to $1.52 billion and its EPS increased 27.1% to $1.97. That being said, I think the market has responded correctly by sending its stock soaring, and I think it still represents a great long-term investment opportunity for four fundamental reasons.

First, it's one of the retail industry's best growth stocks. Dollarama achieved EPS growth of 23.7% to $3.71 in fiscal 2017 and 27.1% growth to $1.97 in the first half of fiscal 2018, which puts it well on its way to achieve the 16.7% growth to $4.33 that analysts currently project for the full year of fiscal 2018. It's also expected to grow its EPS by another 15.2% to $4.99 in fiscal 2019, and analysts have assigned a 15.6% long-term earnings-growth rate estimate.

Second, it's attractively valued. At the time of this writing, Dollarama's stock trades at 29.6 times fiscal 2018's estimated EPS of $4.33 and 25.7 times fiscal 2019's estimated EPS of $4.99, which may seem high to some investors, but I think these are actually very inexpensive given its aforementioned growth rates.

Third, it has immense expansion potential. Dollarama opened 30 net new stores in the first half of fiscal 2018, bringing its total store count to 1,125, and it expects to open another 575 stores over the next eight to 10 years to bring its total store count to 1,700. I think it will achieve this growth target in its expected time frame, and I think it could actually grow its target to 2,000 stores or more without ever running into issues related to market densification.

Fourth, it's a dividend-growth star. Dollarama currently pays a quarterly dividend of $0.11 per share, equal to $0.44 per share annually, which gives it a yield of about 0.3%. A 0.3% yield is far from high, but what it lacks in yield it makes up for in growth; it has raised its annual dividend payment for five consecutive years, and its 10% hike in March has it on track for fiscal 2018 to mark the sixth consecutive year with an increase, and I think its strong operational performance will allow this streak to continue for the foreseeable future.

With all of the information provided above in mind, I think all Foolish investors should strongly consider making Dollarama a long-term core holding.

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jsolitro