After a Strong Q2, Dollarama Inc. Prepares to Face Minimum Wage Hikes

Description

In July, the Ontario government announced that it will raise the province's minimum wage to $14 in January and to $15 in 2019. This announcement pleased workers who are earning minimum wage, but retailers don't see those hikes as good news. Indeed, those hikes are going to increase their store operating costs. Retailers need to find solutions to dampen this rise in costs which is going to put pressure on their margins.

Dollarama Inc. (TSX:DOL) is among the retailers that are going to be the most affected, since most of its employees earn minimum wage, and 40% of its stores are located in Ontario.

Reducing costs through automation

Dollarama is thinking about solutions to mitigate the impact of the rise in costs associated with the upcoming minimum wage hikes.

The discount retailer is planning to set up self-checkout terminals in its stores, following the path of many other retailers who are using technology and automation to save costs. Retailers like **Wal-Mart Stores Inc.** and **Loblaw Companies Ltd.** are already using self-checkout to reduce their costs.

Dollarama is currently evaluating this option and testing it in one store before deciding if it will go on with the project.

The discount retailer's management is also studying other ways of saving costs, such as better waste management, reduction of losses and shoplifting, as well as the use of LED lighting in all its dollar-store chain.

Dollarama's profit is up 24%

During its fiscal 2018 second quarter, Dollarama earned a net income of $131.8 million, or $1.15 per share, compared to $106.4 million, or $0.88, for the same quarter a year before. That's 10.5% higher than analysts' estimates of $1.04 per share. This quarter marks the 11th consecutive quarter of better-than-expected results for Dollarama.

Sales went up by 11.5% to reach $812.5 million.

The Montreal-based chain store showed solid sales from stores opened at least a year, which rose by 6.1%, compared to a progression of 5.7% in the same period last year.

The expansion of Dollarama continues. On July 30, the retailer had 1,125 stores in Canada compared to 1,051 a year ago. It opened 17 net new stores during the quarter compared to 13 net new stores in the prior year quarter. The company is planning to open 60-70 net new stores by the end of the fiscal year.

Dollarama’s decision to accept credit cards has been beneficial, since customers spent more than twice what they typically do with debit and even more than when they pay with cash. The incremental sales impact of credit cards has offset the higher costs incurred to accept them.

I have no doubt that Dollarama will be able to offset the impact of the minimum wage increases. This well-managed retailer has strong historical growth, which has been achieved despite challenging market conditions.

Dollarama has a very high return on equity (ROE) of 502.63% and a net margin of 15.52%, which is well above other department stores. For example, **Canadian Tire Corporation Limited** has a ROE of 14.85% and a net margin of 5.46%.

Dollarama still has the potential to deliver above-average growth over several years. Double-digit growth is expected for the next five years, with a growth rate of 17.16%.

Dollarama’s shares have a one-year forward P/E of 30.7, which is a little high, but given the company’s good growth outlook, I would say it’s still a buy.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/18
Date Created
2017/09/20
Author

sbchateauneuf