Dollarama Inc.: A Security So Profitable That it's Scary!

Description

Since the initial public offering (IPO) in 2009, shares of **Dollarama Inc.** (TSX:DOL) have increased by more than 1,300%!

Although the company seemed to come to market at a time that was the least opportunistic given the short period since exiting the Great Recession, the company has continued to raise the bar since that time. Investors have continued to see their expectations met and surpassed time and time again.

What has made this security unique (in addition to the fantastic return) is just how much it has been able to accomplish since completing the IPO process less than a decade ago. What was originally a store that people only frequented for small knickknacks has become a destination for many consumers at various times of the year. As the company continues to increase its footprint on a national scale by opening more stores each year, Canadians are starting to make the low-cost retailer part of their monthly or even weekly routine.

Let's take Halloween as an example. Many Canadians want to decorate their homes and give out candy but may not be looking to spend a lot of money in doing so. Dollarama has become the top-of-mind retail outlet for those seeking low-cost alternatives on the fly. With a better selection of items with every passing year in addition to an increasing store count, it is perfectly understandable as to why shareholders are willing to pay up to $143 dollars per share, which translates to approximately 35 times earnings.

From fiscal 2014 to fiscal 2017 (which ends at the end of January or early February each year), shareholders have seen revenues increase at a compounded annual growth rate (CAGR) of 12.8%, while operating income has done even better, increasing at a rate of 22%. Given the increasing footprint and dividend, which is minuscule, the company will have the opportunity to do a lot of things with the free cash that becomes available as the goal of 1,800 locations is realized.

The good news for investors is that Dollarama has not stopped thinking about returning value to shareholders in spite of continued growth. Over the past half-year, the company has repurchased more than $300 million in common stock and more than $1 billion over the past 18 months. Given the shrinking share count and the increasing potential for shareholders, the catalyst for investors is very clear.

Once the company reaches a more mature level, dividend increases and shares buybacks will eventually become the norm, which will hopefully lead to share splits, as the company will eventually want to offer investors at least the appearance of a "cheap" stock.

With what is currently a lack of competition, shareholders may want to ride this security well past this Halloween and next.

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