

Dollarama Inc. Surged ~60% Over the Past Year: Time to Take Profits?

Description

Dollarama Inc. ([TSX:DOL](#)) is an incredible business that keeps delivering. The company rocketed ~60% over the past year and is now up a whopping ~400% over the last five years. Although there's still [ample room for growth](#), the price of admission may be way too high for the average value-conscious investor at current levels.

Dollarama is your typical Warren Buffett stock. It's a simple, easy-to-understand business with a relatively simple business model and, unlike other physical retailers, Dollarama is relatively insulated from the disturbance caused by the rise of e-commerce — a disturbing trend that has caused Buffett to sell shares in a one of his long-time holdings, **Wal-Mart Stores Inc.**

For digital retailers, it wouldn't make a lot of sense to ship knickknacks valued at a buck or two, since the shipping costs would likely be higher than the amount a typical customer spends. Despite not investing in an e-commerce platform, Dollarama has been firing on all cylinders, outperforming many of its peers south of the border. The company has enjoyed year-over-year same-store sales growth to go with improved operating margins, all while the company is growing its store count. With the dollar store industry incredibly fragmented, there's still enough growth to last at least another decade.

In addition to having one of the most promising growth profiles out there, Dollarama is a solid defensive name that would likely hold its own during the next economic downturn. The bull has roared this year, but next year may be another story, and Dollarama is a great stock to own when times get tough, since consumers are likely to penny pinch and head to Dollarama to get the best bang for their buck.

Bottom line

A defensive holding with an explosive growth profile sounds like a long-term core holding, but investors should realize that they're paying a huge premium after the stock's recent [breakout](#).

The stock currently trades at a 38.9 price-to-earnings multiple, a six price-to-sales multiple, and a 32.8 price-to-cash flow multiple, all of which are substantially higher than the company's five-year historical average multiples of 27, 3.4, and 24.9, respectively. The dividend yield has also fallen to a mere 0.27% — almost half of what it is normally.

The stock is worthy of a premium multiple, but 32.8 times earnings is a bit ridiculous. I think the stock is extremely overvalued and could be at risk of a correction should the company report sub-par numbers in one of its upcoming earnings reports. Everyone is overly bullish on the company, and there are going to be sky-high expectations. The bar has been set high; if the company falls shy of expectations, I believe the stock could fall back down to reasonable valuations.

Dollarama is a great business, but at this point, it looks like the gravy train has already left the station, so I'd back away from the stock until a meaningful pullback presents itself. Current shareholders may wish to take some profits off the table because I think the stock has run a bit ahead of itself.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/25

Date Created

2017/11/27

Author

joefrenette

default watermark

default watermark