Why Dollarama Inc. Fell 2.12% on Wednesday

Description

Dollarama Inc. (TSX:DOL), the largest owner and operator of dollar stores in Canada, announced its fiscal 2018 third-quarter earnings results on Wednesday morning, and its stock responded by falling 2.12% in the day's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity.

Breaking down the quarterly performance

Here's a quick breakdown of 10 of the most notable financial statistics from Dollarama's 13-week period ended October 29, 2017, compared with its 13-week period ended October 30, 2016:

Metric	Q3 2018	Q3 2017	Change
Sales	$810.58 million	$738.71 million	9.7%
Gross profit	$324.88 million	$291.47 million	11.5%
Gross margin	40.1%	39.5%	60 basis points
EBITDA	$207.25 million	$174.50 million	18.8%
Operating income	$189.25 million	$159.83 million	18.4%
Net earnings	$130.09 million	$110.06 million	18.2%
Diluted net earnings per share (EPS)	$1.15	$0.92	25%
Comparable store sales growth	4.6%	5.1%	N.M.
Stores opened during period	10	18	N.M.
Number of stores — end of period	1,135	1,069	N.M.

Enhanced guidance for fiscal 2018

In the press release, Dollarama provided "enhanced guidance" for fiscal 2018, which it had already "enhanced" in its second-quarter release; here's a summary of what it now expects to accomplish versus its previous expectations:

Metric	"Enhanced Guidance"	September 2017 Guidance
Net new stores	60-70	60-70
Gross margin	38.5-39.5%	38-39%
SG&A	14.5-15%	15-15.5%
EBITDA margin	23.5-25%	22.5-24%
Capital expenditures	$100-110 million	$100-110 million
Comparable store sales growth	4-5%	4-5%

Initial guidance for fiscal 2019

While updating its outlook on fiscal 2018, Dollarama also provided its initial guidance for fiscal 2019; here's a breakdown of what it expects to accomplish:

Metric	Fiscal 2019 Guidance
Net new store openings	60-70
Gross margin	38-39%
SG&A	15-15.5%
EBITDA margin	22.5-24%
Capital expenditures	$110-120 million
Comparable-store sales growth	4-5%

Should you buy on the dip?

It was a fantastic quarter overall for Dollarama, and it has been on a tear so far in fiscal 2018, with its sales up 10.4% to $2.33 billion and its diluted net EPS up 25.9% to $3.11 in the first nine months of the year compared with the same period in fiscal 2017; with these strong earnings results, its positive revisions to its guidance for the full year of fiscal 2018, and its strong guidance for fiscal 2019 in mind, I do not think the 2.12% drop in its stock on Wednesday was warranted.

With all of this being said, I think the drop in Dollarama's stock represents an attractive entry point for long-term investors for three fundamental reasons.

First, it's undervalued based on its growth. After the 2.12% drop, Dollarama's stock trades at 33.6 times fiscal 2018's estimated EPS of $4.46 and 28.9 times fiscal 2019's estimated EPS of $5.18; these multiples may seem high at first glance, but I think they are actually low given the company's current earnings-growth rate, its projected 16.1% earnings-growth rate in fiscal 2019, and its estimated 17.2% long-term earnings-growth rate.

Second, its expansion plans will help drive revenue and earnings growth. Dollarama has opened 40 net new stores so far in fiscal 2018, bringing its total count to 1,135, and it expects to open another 20-30 in the fourth quarter and 60-70 in fiscal 2019. It also has a goal of achieving a total store count of 1,700 in the next eight to 10 years, and I think it could easily achieve this while continuing to achieve positive comparable-store sales growth at its existing locations, which would lead to record revenues and earnings for the company.

Third, it's an up-and-coming dividend-growth star. Dollarama currently pays a quarterly dividend of $0.11 per share, representing $0.44 per share annually, which gives it a yield of about 0.3%. It may have a very low yield, but it's important to note that its 10% dividend hike in March has it on pace for fiscal 2018 to mark the sixth consecutive year in which it has raised its annual dividend payment, and I think its strong earnings growth and low payout ratio will allow this steak to continue for decades.

With all of the information provided above in mind, I think all Foolish investors should strongly consider using the post-earnings weakness in Dollarama's stock to initiate long-term positions.

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
2025/09/11
Date Created
2017/12/07
Author
jsolitro