



## Dollarama Inc. Is Not Worth the High Price of Admission

### Description

**Dollarama Inc.** ([TSX:DOL](#)) is the perfect marriage of defence and [explosive low-tech growth](#). As one of the few retailers that's immune to the industry-wide disruptions caused by e-commerce giants, the stock has gained quite a following over the last few years, as its earnings soared through the roof.

Warren Buffett loves companies with simple, boring, easy-to-understand business models, and a means to grow earnings at an above-average rate over the long run. This is indeed what you're getting with Dollarama, but the only problem is the valuation. It's just too expensive at current levels and most of the future earnings growth is already baked in to the stock.

Dollarama trades at a hefty 36.07 trailing price-to-earnings multiple, a 5.7 price-to-sales multiple, and a 30.9 price-to-cash flow multiple, all of which are higher than the company's five-year historical average multiples of 28.9, 3.9, and 26.9, respectively.

That's a high price to pay, and with nothing but optimism baked in to the stock, a nasty plunge could be in the cards if a quarter ends up coming short of perfection. Sure, such a defensive growth powerhouse deserves a premium multiple, but at ~26 times forward earnings, you're paying way too much for what you're getting in return.

In addition, Dollarama has been repurchasing a tonne of its own shares at a time of questionable valuation. The company has been racking up a lot of free cash, but I believe the share repurchases aren't the best use of this cash, especially since shares are absurdly expensive according to most valuation metrics.

"The question of whether a repurchase action is value-enhancing or value-destroying for continuing shareholders is entirely purchase-price dependent," wrote Warren Buffett in a letter to **Berkshire Hathaway Inc.** shareholders. "When CEOs or boards are buying a small part of their own company, though, they all too often seem oblivious to the price."

### Bottom line

Dollarama sells cheap items in its stores, but the stock is anything but cheap right now. I'm also not a

big fan of management's share repurchases, as I think the stock has been overvalued for quite some time now.

If you're keen on investing in a defensive earnings-growth powerhouse like Dollarama, I'd recommend waiting for a pullback or a longer period of stock price consolidation, which will give a chance for [earnings to catch up](#).

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