Dollarama Inc. Belongs in Your RRSP

Description

Are you looking for a reliable investment for your RRSP prior to the March 1st deadline? **Dollarama Inc.** (TSX:DOL) is Canada's largest value retailer with approximately 1,135 stores across Canada. After an impressive run, the company's share price is down 2.5% over the past month. Much like its store offerings, an investment in Dollarama provides a little something for all investors.

Double-digit growth

Dollarama has been one of the most impressive TSX IPO success stories of the past decade. Investors would be hard-pressed to find another company that matches Dollarama's performance. A $10,000 investment in Dollarama at its IPO price in 2009 would be worth just shy of $175,000 today. The company is highly profitable with expanding gross margins and has been growing sales at an impressive pace. Its margins, return on equity, and return on assets are also well above industry averages.

Are you worried you've missed out? Don't be, Dollarama is well positioned to reward shareholders for years to come. The company anticipates opening between 60 and 70 stores annually over the next two years. It also expects same-store growth of 4-5% over the same time frame. Over the short term, earnings are expected to grow by approximately 22% in 2018 and 15% in 2019. Looking beyond 2019, analysts expect the company to grow earnings at a compound annual growth rate of 17% over the next five years. Of note, the company has beat quarterly earnings estimates all but four times since the company went public.

A rising dividend

At first glance, Dollarama's current 0.30% yield is not impressive. However, the company is a dividend-growth star in the making. Despite having only IPO'd in 2009, the company has already established itself as Canadian dividend aristocrat, having raised dividends for seven straight years. Equally as impressive, its five-year dividend-growth rate is approximately 15%, and its dividend has more than doubled since 2011. One of the reasons for its depressed yield has been the impressive performance of its share price. This is by no means a negative for income investors.

The company's current payout ratio is 10.11% and a miniscule 8.90% based on forward earnings. As a result, the company is well positioned to continue its double-digit dividend growth well into the foreseeable future.

Bottom line

Dollarama is a great addition to any RRSP portfolio. Although historical performance is not a precursor to future success, the company is still expected to grow at impressive rates. The company has successfully transitioned its product mix to higher-margin items and have beaten analysts' estimates in 13 straight quarters. Likewise, income investors can potentially see its dividend double in a handful of years based on its historical growth rates. The company has a proven track record and is capable of delivering for investors moving forward.

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