Dollarama Inc.: This Ship Won't Slow Down

Description

My uncertainty about **Dollarama Inc.** (TSX:DOL) has not been a secret. The company continues to experience tremendous growth. But that growth is already baked in to the price of the shares. Can the stock actually appreciate and give investors a solid return?

The answer is most definitely yes, if this most recent quarter's results are a sign of anything. We'll touch on the results, but first, the company announced two shareholder-friendly changes.

First, the company is going to do a three-for-one share split if shareholders approve. If you have one share, you'll receive two additional ones. This means nothing in the grand scheme of things except for one thing. For retail investors, they view a $150 per share stock as expensive, but they might view a $50 a share stock as reasonable. So, this share split could inflate the price of shares even further.

Second, management announced that it was increasing the dividend to $0.12 per quarter — a 9% increase. If the company is going to continue growing, it's going to reward its investors.

Sales increased 9.8% to $938.1 million year over year with comparable store sales growing by 5.5%. The gross margin stayed constant at 41.4%, which is a great sign. Keeping margins constant while growth is occurring means the business is managed efficiently.

On the growth side, the company opened 25 net new stores in the fourth quarter and 65 net new stores during the entire fiscal year. This is the same number of stores that were opened last year, so management is taking a consistently aggressive growth rate.

Looking forward, the company is looking to expand its new distribution centre in Montreal to 500,000 square feet — an increase of 50%. It's also buying it outright from the current lease. This is an important step, because it demonstrates management has a long-term plan to support its aggressive growth.

By 2027, Dollarama expects to have 1,700 stores. Currently, it has 1,160 stores across the country. By having a strong distribution centre near Montreal, it should be in a position to boost its new stores all around the city and province.

But it also means that the company can expand into e-commerce. This is currently in beta while the company figures out delivery costs and the final selection of goods. The online experience will allow people to buy goods in bulk versus the one-off items they'd purchase in store. There are many wholesale stores that have built great businesses, and this is a smart move by the company.

I'll always be a little uncertain about Dollarama. The stock is incredibly expensive, and the company will need to continue operating perfectly to meet expectations. However, momentum means something. Dollarama is doing a great job with its growth strategy, and with the hiked dividend and three-for-one share-split, perhaps owning a piece would be a good investment.

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