Could This Be the Best Retail Stock in Canada?

Description

Last week, **Dollarama Inc.** (TSX:DOL) released results for the fourth fiscal quarter of 2018 that continued to showcase the strength of what is arguably the best retail stock in Canada.

Let's look at those results and see if the amazing growth of this stock is set to slow within the next year.

Quarterly results: impressive?

Dollarama's fourth quarter continued to impress, with diluted net earnings per share surging 17% during the quarter. Sales also saw a healthy 9.8% increase to come in at $938.1 million, handily beating the $854.5 million reported in the same quarter last year. Comparable-store sales also realized a healthy bump of 5.5% over and above the 5.8% increase realized in the prior year.

EBITDA increased by over 12% to $253.8 million in the quarter, representing 27.1% of sales, and operating income came in at $235.1 million, or 25.1% of sales, representing an increase of 11.6% over the prior period.

Store growth has always been an important goal for Dollarama, and in the most recent quarter, the company opened 25 net new stores– one fewer than the 26 opened in the same quarter last year.

Critics have long cited their concern over Dollarama's rapid ascension in Canada, noting that a point of saturation was approaching. This has been proven wrong on more than one occasion; if anything, the market in Canada can still support hundreds of additional locations before getting anywhere close to the saturation observed in the U.S.

In fact, several dollar store competitors have made note of this and announced plans last year to expand into the Canadian market to challenge Dollarama's supremacy.

Net earnings for the quarter came in at $162.8 million, or $1.45 per diluted common share, representing a healthy uptick from the $146.1 million, or $1.24 per diluted common share, reported in the same quarter last year.

Other notable announcements are just icing on the cake

Dollarama’s results continue to be impressive, but there are two other developments announced during the earnings call that really show the company is moving in the right direction.

The first was a 9% hike in Dollarama’s dividend. Granted, Dollarama’s paltry dividend will hardly constitute reason enough to invest in the company, but the hike to the now 0.3% yield payout might be a sign of future increases to come.

The second point has to do with an upcoming stock split. Dollarama announced a proposed three-for-one split to the stock to take effect this summer. Assuming all approvals are granted, shareholders of record will receive an extra two common shares for each one common share held.

While stock splits don’t exactly increase the value of existing shareholders, what they do provide is a catalyst for smaller investors to enter the market. At Dollarama’s current stock price of just over $150, this would give an opportunity for new investors to buy in at the $50 mark.

This isn’t the first time that Dollarama has performed a split; there was a two-for-one split in the fall of 2014, and the stock price has more than doubled since that time.

In my opinion, Dollarama remains one of the most impressive retail stocks for investors to consider for the long term.

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