Will Dollarama Inc. Continue to Outperform?

Description

In the last five years, **Dollarama Inc.'s** (TSX:DOL) stock has risen 340%, leaving other Canadian retailers in the dust.

With a massive expansion behind it, Dollarama has increased its Canadian store count from 700 stores in 2012 to more than 1,000 stores today.

And this has been done profitably, generating big shareholder value in the process, growing revenue at a compound annual growth rate of 12% since 2014, and more than doubling its earnings per share during the same period.

Up to this point, Dollarama just keeps going strong, with a fine-tuned strategy and business model that capitalizes on a consumer that is demanding lower price points for their everyday items. Dollarama does this to perfection, with merchandising skills that have brought down costs and driven up efficiency.

The latest quarter saw more margin increases, a 5.5% same-store sales growth rate, and a continued expansion of its store base in the last year, with 65 new stores added (+6%).

EBITDA margins continue to expand, coming in at 27.1% in the quarter compared to 26.5% last year, which is far above its peer group, and EPS increased 17% to $1.45.

The company's strong free cash flow generation and return on invested capital came through again in fiscal 2018. Operating cash flow was $611 million compared to $509 million last year, and free cash flow was $498 million.

But can Dollarama continue to outperform in 2018 and beyond?

Well, it sure looks like it, with management recently announcing that their existing Montreal-area distribution centre will be expanded by 50% and that they plan 60-70 net new stores in both fiscal 2018 and 2019.

Plus, a three-for-one stock split will be instituted, and a 17% increase in its dividend was announced.

But for all of the company's exceptional performance, one cannot say that investors can buy into the stock at attractive valuation levels. We are certainly asked to pay up for this quality company. The stock trades at 29 times this year's earnings estimate.

And while it has been worth it in the past, maybe looking into a couple of our other options in the retail space would be a good idea.

Sleep Country Canada Holdings Inc.'s (TSX:ZZZ) stock price has more than doubled in the last three years, as the company has opened 109 stores since the beginning of 2007, and with Sears's demise, what was once a leading mattress retailer has left a gaping hole for Sleep Country to fill, so the future looks bright.

Sleep Country trades at 19 times this year's expected earnings.

Lastly, **Indigo Books and Music Inc**. (TSX:IDG) is also in the process of growing in the face of a rapidly changing retail landscape.

Same-store sales increased 7.9% in the fourth quarter, as online sales and the general merchandise category are still booming, with up to 20% revenue growth.

And with its announced entrance into the U.S. retail world, with the first store to be opened this year in New Jersey, this retailer has big upside.

The stock trades at 18 times this year's expected earnings.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:IDG (Indigo Books & Music)
3. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/18
Date Created
2018/04/11
Author
karenjennifer