Dollarama Inc. (TSX:DOL): Is the Q1 Miss a Sign of Deep Trouble?

Description

Investors reacted quite harshly to **Dollarama Inc.'s** (TSX:DOL) first-quarter earnings report last week, which missed analysts' expectations for growth in same-store sales.

Its shares fell as much as 7% on June 7 after Canada's largest discount retailer said comparable-store sales grew 2.6% from last year, while the number of stores grew by 62 locations to 1,170. Excluding the impact on seasonal goods such as gardening items, same-store sales were within its forecast of 4-5% but lower than analysts' expectations of 5.2-7.3%.

To put things in perspective, Dollarama has consistently produced results that beat analysts' expectations. And a slight miss in such a situation usually generates a sharp sell-off.

Dollarama blamed spring's late arrival, which reduced the sales of seasonal items, such as gardening supplies and beach toys. The company said the summer goods are the most significant seasonal product sales in the first quarter, with the majority of these sales occurring during the month of April. The company says it will recover a good portion of the summer sales, and investors shouldn't consider them as lost.

On other metrics, Dollarama showed a robust performance. Its per-diluted-share profit grew 12% to $0.92 in the first quarter compared with $0.82 per share in the same period a year ago. Sales for the 13 weeks ended April 29 were $756.1 million, up 7.3% from $704.9 million in the comparable period a year earlier.

Dollarama's first-quarter miss came at a time when Canadian retailers are facing an uncertain operating environment when cost pressures are rising and a trade war between the U.S. and Canada is escalating.

Despite these negative developments, I don't think investors should abandon this top retailer, which has a dominant position in Canada's discount space. With a massive spending spree on its expansion during the past five years, Dollarama has more than 1,100 stores — a huge jump from the 700 stores it was managing in 2012.

This expansion produced great results for Dollarama's shareholders, who saw their investments surge more than three-fold, as sales grew at a compound annual growth rate of 12% since 2014, more than doubling the company's bottom-line profitability.

The bottom line

I see the latest sell-off as a blip in Dollarama's otherwise excellent growth trajectory with earnings growing 15-20%. Trading at 151.34, Dollarama stock is a great buy for long-term investors. After the recent pullback, its stock is trading at a forward price-to-earnings multiple of 25.25, which looks quite attractive to me.

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