

Is Dollarama Inc. (TSX:DOL) the Best Dollar Store to Own?

Description

The analysts were expecting **Dollarama Inc.** ([TSX:DOL](#)) to deliver Q1 2018 revenues of \$777 million, same-store sales growth of 4.6%, and earnings per share of \$0.93 when the Montreal discount retailer reported its results June 7.

It failed on all three counts, delivering \$756 million, \$21 million less on the top line; it had same-store sales growth of 2.6% — 200 basis points shy of both the analyst estimate and what it did in the first quarter last year — and earnings per share of \$0.92 — one penny shy of expectations.

In the scheme of things, the misses on the top and bottom line aren't a big deal; it's the same-store sales miss that's worrying investors, and rightfully so.

CEO Larry Rossy blamed poor April weather for lower than anticipated revenues from summer seasonal products. Fear not; it expects to get those revenues back in the second quarter.

"Dollarama says it believes it's recouping a meaningful portion of the summer sales, meaning they're deferred to the second quarter, not lost," wrote the *Globe and Mail's* David Milstead commenting on the shortfall. "The company says its first-quarter same-store sales gains for non-summer products were in the 4% to 5% range, in line with the annual guidance that it reiterated on Thursday."

So, all is well at Canada's leading dollar store retailer — Dollarama has approximately 70% of the total number of dollar stores open in this country — and investors need not look elsewhere for a play on discount retail, right?

Not necessarily.

It depends why you're investing in Dollarama

By almost any valuation metric, Dollarama's stock isn't cheap. Fool contributor David Jagielski recently [said](#) as much while discussing the company.

I'm a fan of both Dollarama and **Alimentation Couche-Tard Inc.**([TSX:ATD.B](#)), but for different reasons.

I like Dollarama because of its growth — it's added 62 stores over the past 12 months — and its ability to appeal to consumers in good times and bad. While it does have wage concerns to deal with as well as tariff costs to eat imposed by the Feds July 1, I believe there continues to be demand for its \$4-or-less business model, which should insulate it from any real pain.

I like Couche-Tard because it's a well-run organization whose stock is very cheap at the moment. In April, I'd [recommended](#) Couche-Tard over Dollarama, specifically because the convenience store operator was the better value play.

Dollarama's latest results suggest a crack has appeared in its growth story, but until we get the second-quarter results, there's little investors can do about the shortfall in same-store sales except to accept

the company's version of what happened in Q1 and what should happen in Q2.

Now, if it comes in with a shortfall in the second quarter, that's an entirely different matter altogether. But for now, the Dollarama growth story is still intact.

Another option

Dollar Tree, Inc. ([NASDAQ:DLTR](#)) is the second-largest dollar store chain in Canada with 225 stores, or about one-fifth Dollarama's footprint. It's a not a big threat. However, down in the U.S, it has a massive footprint, occupying 118 million square feet of selling space at 14,732 stores in 48 states operating under the Dollar Tree and Family Dollar banners.

Avenue Investment Management portfolio manager Paul Harris recently appeared on BNN Bloomberg's *Top Picks* show recommending Dollar Tree, stating, "the stock trades at 14.3 times 2019 earnings, nine EV/ EBITDA, and a free cash flow yield of 5.7%."

How does this compare to Dollarama?

Dollarama trades at 25.5 times 2019 earnings, 24 EV/EBITDA, and a free cash flow yield of 2.6%.

There's no question Dollar Tree is a far better value than Dollarama, but it's not growing quite as fast due to its Family Dollar stores experiencing lower same-store sales as a result of a strong economy in the U.S.

While Dollar Tree is like Dollarama in that it provides a treasure-hunt experience for customers at less than a \$1, Family Dollar's low-income client base is doing better financially and opting to shop elsewhere.

Is Dollarama the best dollar store to own?

If you were thinking about investing \$5,000 in Dollarama stock, I'd probably take half and invest in Dollar Tree and put the rest into Dollarama with the caveat that its stock price will drop in September if the missed sales from bad weather in April don't materialize as advertised.

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1. Editor's Choice

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