Is it Time to Sell Dollarama Inc. (TSX:DOL)?

Description

Dollarama Inc. (TSX:DOL) missed estimates in its fiscal 2019 first quarter, hurt by a prolonged winter that lowered sales. The stock plunged nearly 7% in reaction to those results.

If you own shares of Dollarama, you may wonder if the time has come to sell some of your shares. Let's analyze the discount retailer's results more deeply to determine if you should still be long on Dollarama.

A disappointing first quarter

The latest quarter marked a turning point for Dollarama. Indeed, after delivering better-than-expected results for 13 consecutive quarters, the retailer missed analysts' estimates in its first quarter.

While analysts expected adjusted EPS of $0.93, Dollarama reported adjusted EPS of $0.92 in the quarter ended April 29. This is just one cent lower, but it's still a miss. On the plus side, adjusted EPS increased 12.2% as compared to the same quarter last year, which is very good in the retail sector. Net income jumped 7.3% to $102 million.

Sales reached $756 million, up 7.3% from a year ago, and same-store sales increased 2.6%. Analysts expected sales of $777 million and same-store sales of 4.7%. Sales of summer items were lower in April than usual due to the cold weather. Dollarama said that bad weather just delayed the sales of summer items and that the company will regain most of its lost sales during the second quarter.

Same-store sales gains for non-summer products were in the 4-5% range, in line with Dollarama's annual guidance.

The discount retailer announced that it may raise prices on food and other goods imported from the United States due to Canada's plans to impose tariffs in retaliation for American duties on aluminum and steel. Since other retailers will face the same pressure, the company's CEO Neil Rossy is not worried that Dollarama will lose its competitive advantage.

More store openings and expansion in e-commerce

Fast growth is still in store for the dollar chain. The company plans to have 1,700 stores in Canada by 2027, which is about 46% more than today. For this year, 60-70 new locations are planned. To support that growth, the company will increase the size of its warehouse in Montreal by 50% to 500,000 square feet over the next two years.

Recognizing that consumers are increasingly buying on the internet, the company will set up an online store later this year, but this will be limited to customers who wish to buy certain products in large quantities.

Bottom line

While the market was disappointed by Dollarama's last quarter, I think it overreacted. Sales were weaker than expected mostly due to bad weather, which is a temporary factor. Dollarama still managed to raise its adjusted profit by 12%, which is very good considering the competition and the increase in the minimum wage.

Furthermore, a high earnings-growth rate of 15.4% per year on average is expected for the next five years.

Dollarama's P/E is 32.5 versus 31.8 for its competitors, so the stock is a little pricey. However, its forward P/E is lower at 25.4. I think it is reasonable considering the company's growth.

So, I don't see any reason why you would want to sell your shares of Dollarama.

But if you don't hold any shares, I think it's still a buy. Dollarama is a great stock to buy and hold for a long time, since it is growing steadily and is less volatile than the market, which is good during a market downturn.

The stock is currently trading around $150, but Dollarama will execute a three-for-one share split on June 19, so it becomes more accessible to small investors.

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