Dollarama Inc. (TSX:DOL) Still Has Room for Further Growth

Description

Dollarama (TSX:DOL) is, without a doubt, one of the most impressive growth stories of the past decade. Since its IPO over a decade ago, the dollar store operator has seen its stock price shoot into the stratosphere, recording impressive growth in nearly every quarter.

But is that growth still sustainable?

Dollarama's product and store model — simplified

Dollarama's chain of over 1,000 dollar stores sells a vast array of products that are pegged to certain price points. Currently, those price points hit a wall at $4, and the retailer has attracted a wild following of value-seeking customers that are lured in to buy several products they need but often leave with a cart full of items.

The 1,000-store network may sound like a lot, but the truth of the matter is that the Canadian dollar store market is nowhere near as saturated as the market in the U.S., where dozens of large dollar store companies compete to the benefit of consumers. Over the course of fiscal 2019, Dollarama is maintaining its guidance to open between 60 and 70 net new stores.

The next key point is Dollarama's product variety, which far exceeds its competitors. The vast majority of goods that Dollarama sells are imported, and Dollarama often bundles several products together under a single price point. This creates an illusion of value to the consumer, while at the same time keeping Dollarama's margins, which are estimated to remain in the 38-39% over the course of the fiscal year, high.

Strong results continue to fuel more growth

In terms of results, Dollarama's quarterly results for the first fiscal of 2019 saw the company report sales of $756.1 million, reflecting a 7.3% increase over the same quarter last year. Comparable store sales saw a 2.6% improvement over and above the 4.6% in growth realized in the previous year, and EBITDA surged 9.2% to $170.2 million over the same quarter last year.

Diluted net earnings for the quarter came in at $0.92 per share, reflecting a 12.2% increase over the same period last year.

Overall, Dollarama's results showcased another impressive quarter, which would have been even stronger if, as CEO Neil Rossy noted, poor weather and lighter summer assortment sales weren't a factor.

Is Dollarama a good investment?

Dollarama recently underwent a three-for-one stock split earlier this summer, the result being that a single share of the retailer now trades for under $50. Stock splits don't actually create new value for the company, but they do hold some emotional sentiment for prospective investors, particularly those that are new to the market and trying to buy as many shares as possible.

To put it another way, a stock split can invite new, often smaller investors into the market.

That factor alone is not reason enough to view Dollarama as a great investment, and the growing threat of foreign dollar store companies expanding further into the Canadian market remains a real threat to future growth. There's also Dollarama's dividend, which provides a paltry 1.02% yield that is unlikely to sway investors looking for income as well as growth.

Investors looking for a long-term growth pick will be more than content with investing in Dollarama. Just don't expect the double-digit growth and record-breaking profits we've seen in the past to persist for much longer.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/02
Date Created
2018/08/15
Author
dafxentiou