Dollarama Inc. (TSX:DOL) Is in Need of a Catalyst

Description

The last time I wrote about **Dollarama** (TSX:DOL), it was before the company's stock three for one stock split. Prior to that, I had concluded that the stock split should have no real impact on the company's share price. Why? Because it has no impact on the company's fundamentals.

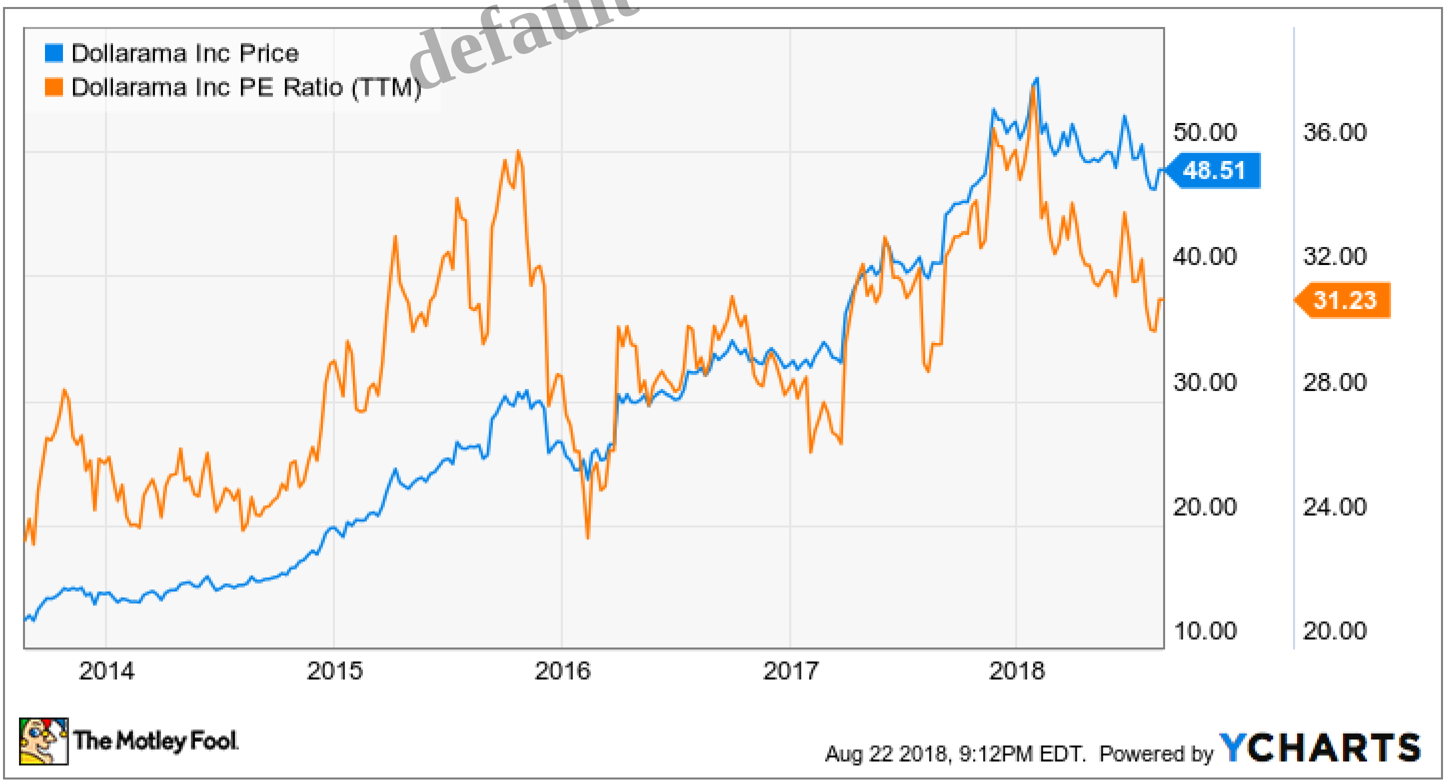
In fact, it was quite the opposite. The last three major Canadian companies to announce a stock split underperformed the market in the year following. How has Dollarama fared? Not that great.

Since Dollarama's split, its share price has lost 8.23% of its value. In comparison, the **S&P/TSX Composite Index** has eeked out a 0.5% gain.

Has Dollarama's recent struggles presented investors with a buying opportunity?

Valuation

As of writing, Dollarama is trading at 31.3 times earnings. Although this is near its one-year low, it's still not that cheap. Take a look at the chart below.



As you can see, Dollarama's current P/E is above its five-year historical average of 28.9. Its price-to-sales and price-to-cash flow also are above the company's five-year averages.

Here is the issue. Dollarama is experiencing slower growth and as such, should be trading below its historical averages.

Slowing growth

Over the past five years, Dollarama has grown earnings per share (EPS) by a compound annual growth rate of 25.5 per cent. Since peaking in 2016, EPS growth has slowed in both 2017 and 2018. Looking forward, analysts expect the company to post EPS growth of approximately 16% in 2019 and 13% in 2020.

Dollarama's P/E to growth (PEG) ratio is a hefty 2.15. Typically, a company is considered to be a good bargain if its PEG ratio is below one. Thus, Dollarama's share price has gotten ahead of its growth rate and can be considered overvalued.

A good company, poor value

There is a tinge of irony here. Dollarama offers general merchandise at good value. Unfortunately, it's quite the opposite for investors. There is nothing of value about its current stock price.

The company is a Canadian Dividend Aristocrat having raised dividends for seven straight years. Yet, even the company's 0.33% yield is nothing to get excited about.

My thesis on the company hasn't changed. Dollarama is great company that has had an impressive run. At current prices and increasing competition, there isn't much upside. The company is stuck in no man's land. Its yield is not high enough to attract income investors, it's not a value play and there are plenty of companies that offer better growth rates.

Investors expecting Dollarama to deliver exponential growth as it has in the past will surely be disappointed.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks

2. Investing

Date
2025/08/26
Date Created
2018/08/25
Author
mlitalien