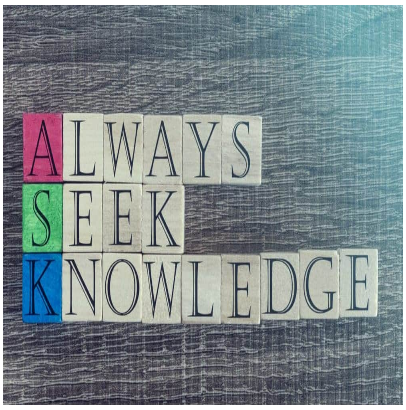

Dollarama Inc’s (TSX:DOL) Q3 Proves That Problems From Q2 Haven’t Gone Away

Description

Dollarama Inc (TSX:DOL) released its quarterly earnings today. The company’s sales were up over 6% year over year and earnings rose by a little more than 2%. However, let’s take a deeper look into the financials to see whether you should consider buying Dollarama today.

Same-stores sales continue to show more modest growth

In Q2, investors will recall there were many alarm bells going off when the company produced soft growth numbers among its existing stores. The stock would go on to lose more than 20% of its value due to concerns that its growth rate may have peaked.

Well, in Q3, the company didn’t do a whole lot better as same-store sales were up 3.1% and only offered a minor improvement from the 2.6% growth that the company achieved last quarter.

While investors might be wondering why these numbers would be looked down upon, it’s because Dollarama is primarily a growth stock and one that has traded at high multiples due to expectations that it will continue to grow. Without much growth, there’s little reason to buy the stock at more than 20 times its earnings.

Last year, the company’s comparable sales growth was 4.6%.

Expansion continues and remains on track

For the fiscal year, Dollarama expected to open between 60 to 70 new stores and in its release, it still believes it will fall within that range. So far, Dollarama has opened 43 stores during its current fiscal year and this quarter opened up 14 compared to 10 last year.

Good cost control helps produce another good profit

While all the news will be surrounding Dollarama’s sales growth and whether it has peaked or not, costs are important as well, and the company has been able to keep them under control as it has maintained an operating income that's 22.6% of sales, which is very close to the 23.3% it achieved a year ago.

Ultimately, anything over 20% is a good number and the company should be recognized for a good performance in managing and controlling its expenses. Rising interest rates and hourly wages have likely put a lot of pressure on the company this year.

Investors not pleased with the results

In early trading on Thursday, Dollarama's stock was down more than 15% as the results likely reaffirmed what Q2 signaled: the dollar store had reached a peak in terms of growth.

Even though Dollarama had a good quarter and continued to show growth, that's sometimes just not enough, especially for a stock that offers not much else for investors.

Should you consider buying Dollarama?

The ultimate contrarian play right now would be to buy Dollarama, and there are a couple reasons why it might not be a bad idea.

First, the stock has declined so much this year that it might be a tempting value buy as you could get it at a very decent multiple to earnings.

Second, we're likely to see the country run into headwinds as interest rates continue to rise and as the oil and gas industry struggles, as that could make shopping at a dollar store much more of a necessity for cash-strapped shoppers, which could re-ignite the company's sales numbers.

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