Dollarama Inc's (TSX:DOL) Q4 Results: Many Positives to Take Away

Description

Dollarama (TSX:DOL) released its Q4 and year-end results today. The company has been struggling in recent quarters to meet investor expectations as sales growth has started to lag, and unfortunately, things weren't a whole lot better this past quarter.

Although the company's sales continued to grow with revenues up 13% year over year, they still came in below analyst expectations. Sales of $1.06 billion were slightly below the $1.07 billion that was expected by the markets. Perhaps most concerning is that same-store sales increased by just 2.6% compared to 5.5% a year ago. When Dollarama stock was flying, it had much stronger sales growth in its existing stores and it has now regressed to the levels you'd expect of a regular retailer. And for a long time, it seemed as though Dollarama was much more than just that.

In its outlook for the new fiscal year, the company still anticipates a lot of store openings, with between 60 and 70 expected to be launched throughout the year.

Earnings up from a year ago

Dollarama's bottom line also showed improvement during the quarter, as net earnings of $172 million were up 5.6% from last year's tally of $163 million. Unfortunately, with a per-share profit of $0.54, the company also missed expectations here as well, this time by $0.01.

However, it's still a good performance when you consider Dollarama netted a profit margin of over 16%; many companies would love to be at even half of that rate. What's impressive is that the company has been able to do this even as minimum wages have been on the rise. The biggest increase in its expenses came in the sales, general, and administrative section, with costs rising by 15% year over year. Despite this, operating income was still able to grow by 7%.

Dividend increase

Dollarama announced that it would be raising its quarterly dividend to 4.4 cents per share, an increase of 10% from where it was before. And while that might seem impressive, its payouts will still be around just 0.5% on an annual basis. Admittedly, Dollarama may need to focus on dividends if it's not able to find stronger sales growth from its existing stores, as that was the key driver behind the stock's impressive returns.

However, at 0.5%, it's got a long way to go to attract any many dividend investors. There are simply much better yields out there that investors can get without taking on much risk.

Bottom line

In early trading on Thursday, Dollarama's stock was down around 3%, which shouldn't come as a surprise given the soft same-store sales numbers. In the past year, the stock has struggled, losing around one-third of its value, as investors have not been nearly as bullish on Dollarama as they have been in the past.

Even if there is limited sales growth from existing stores, one way I could see Dollarama becoming a hot buy again is if it can show strong numbers from its online store that it recently launched. If the company starts seeing strong results from there, that could change the stock's fortunes. Dollarama isn't a buy based on the results it released today, but it could good be a good deal if the stock continues to fall in price.

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