Dollarama (TSX:DOL): Did You Just Miss the Buying Opportunity of the Year?

Description

Most stocks have enjoyed a nice start to 2019. **Dollarama** (TSX:DOL) is no exception.

You might remember the dollar store giant posting disappointing earnings back in September, which sent shares reeling. By the time 2018 ended, Dollarama shares had shed some 40% of their value versus the highs, falling from approximately $50 each all the way down to $30.

Momentum completely reversed itself in 2019, with shares relentlessly chugging higher. The stock recently surpassed $40 per share, which gives it a gain of 26% thus far in 2019.

This puts investors in a difficult position. Some might be tempted to sell and take their attractive profits. Others might be looking to buy in for the first time to ride the momentum.

What should you do? Here's what I recommend.

A terrific long-term buy

One of the things billionaire investor Warren Buffett has encouraged investors to do is ignore the share price and look at a company's underlying fundamentals. A quick look at Dollarama's numbers shows us a company still growing at a nice clip that is posting consistently good results.

Let's look at the company's most recent quarterly earnings for confirmation. Dollarama recently issued its fourth-quarter results, and the first thing investors should notice is sales increased 13% to $1.06 billion. The top-line growth was fueled by new stores opening and better sales at existing stores. Same-store sales, an important metric in retail, increased 2.6% in the quarter.

Most retailers have "loss-leader" sales every week, which drive the majority of revenue. How often have you gone to the grocery store and only picked up sale items? Dollarama doesn't have weekly sales and it doesn't mess around with steep discounts. Every item in the store gets a 40% gross margin. This helped the company generate 25.8 EBITDA margins in its most recent quarter. Compare that to **Empire Company**, Canada's second-largest grocer, which only generated a 24.2% gross margin in its most recent quarter.

You'd think after opening approximately 1,200 stores already that Dollarama would be slowing down its expansion plan. But store openings actually increased in the most recent quarter, with 33 new locations opening their doors for the first time. That compares to 25 new stores in the same quarter last year.

And to top it all off, investors are getting these results for a relative bargain. Analysts predict the company will earn $1.83 per share this fiscal year, putting shares at 22.4 times earnings. Sure, that's not the terrific deal investors were getting at the beginning of 2019, but it's still a reasonable price for a company growing at such a fast pace.

What's next?

Some investors worry Dollarama's best days of growth are behind it. But I still see potential for the company to get bigger.

The most attractive growth opportunity available to Dollarama is the potential acquisition of Dollar City, a Central American dollar store chain with some 150 locations in Colombia, El Salvador, and Honduras. Dollarama has a call option to acquire 50% of the chain in 2020, which it will undoubtedly exercise. And it's intimately familiar with Dollar City's operations, since it has been helping the smaller chain with its supply chain for years now.

And as I outlined in a previous article, Dollarama still has oodles of potential here at home, including expanding into smaller communities. Before you scoff at the chain moving into towns with just a couple thousand people, note that the U.S. dollar store operators have had great success using a similar strategy.

The bottom line

Don't be discouraged by a 26% move higher if you're looking to buy Dollarama shares for the first time. This excellent business still has plenty of growth potential left, and shares trade at a pretty reasonable valuation today. There's really no bad time to buy such a business.

CATEGORY

1. Dividend Stocks
2. 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. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/04
Date Created
2019/05/06
Author
nelsonpsmith