Why This IPO Success Story Is Back in Growth Mode

Description

Since its IPO over decade ago, Dollarama established itself as one of the best retail stocks on the market. Incredible growth backed up by a business model that appears to be immune to downturns in consumer spending are clear drivers behind that growth. Also noteworthy is the over 1,200-location network of stores that Dollarama has established in that time, stretching coast to coast with millions of products for sale for under $4.

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Why is this incredible IPO success story back in the news?

Despite that incredible growth story, Dollarama's rise to fame has slowed in recent quarters. Specifically, Dollarama missed estimates on same-store sales in the preceding three quarters, which ultimately lead to a whopping drop of 28% in 2018.

Fortunately, in 2019 the stock is back on a roll, and Dollarama has surged over 50% year to date.

One of the key reasons for that surge, particularly in recent weeks, is the recently announced deal by Dollarama to acquire the Latin American chain of Dollar City stores. Dollarama has been in an agreement with Dollar City since 2013, providing business and product expertise to the chain, and the option to acquire the chain outright was always part of the existing agreement.

In total, the estimated purchase price is said to come in between US$85 and US$95 million, with Dollarama providing US$40 million once the deal closes and the remaining balance being settled during in the first fiscal of 2021.

Coincidentally, Dollar City's footprint across Latin America has seen immense growth in recent years. The chain now has over 180 stores spread across El Salvador, Guatemala, and Columbia. Dollar City is forecasting to have a network of 600 stores across the region within the next decade.

This is an important fact to note, as the region is experiencing stronger sales per square foot over stores in Canada. That trend is likely to only accelerate over the next several years, as concerns over pricing margins and increased competition in Canada continue to make headlines.

Fortunately, Dollarama dispelled those myths in its recent quarterly update.

Let's talk results

Dollarama's recent quarterly update showcased once again why the company is the king of the Canadian retail market. Total sales saw a 9.5% increase to $828 million, surpassing the $813.05 million that analysts were expecting.

Comparable store sales also witnessed strong 5.8% growth during the period, which was over and above the 2.6% growth that the company witnessed in same period last year. EBITDA saw a handsome 4.1% gain in the quarter to $226.8 million, or 27.4% of sales.

Overall, Dollarama saw net earnings come in at $0.33 per diluted common share, reflecting a 6.5% gain over the $0.31 per common diluted share reported in the same period last year. The company also realized a gain of 11 net new stores in the quarter, putting Dollarama on track for 60-70 new stores forecasted for this year.

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Final thoughts

In my opinion, Dollarama remains an intriguing long-term investment option. The company's investment into Dollar City should provide both handsome gains and a source of growth for Dollarama over the long term, but investors should note that it could be several quarters before those results are reflected in Dollarama's financials.

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