Should You Buy Dollarama (TSX:DOL) Ahead of Earnings?

Description

Earnings are coming up for **Dollarama** (TSX:DOL), and it's time to take a look whether investors should buy shares before the company's earnings or perhaps sell any shares they have. The company is scheduled to release its second-quarter results on September 12.

Let's take a closer look at how the company has done recently as well as factors that could impact its upcoming quarterly results.

Recent track record

Dollarama has missed on earnings for five straight periods. However, despite this, the stock has continued rising. Part of the reason is likely that Dollarama's stock already fell so much in 2018 that investors still saw value in the company, despite its underwhelming performances.

Now, with the stock having made up for last year's losses and not far from all-time highs, it may not be able to benefit from being seen as a cheap stock anymore. For the stock to continue climbing, given how badly we've seen the markets perform lately, it might take a very strong quarter for Dollarama to stay on its strong trajectory.

Relations with China could have a big impact on the company's performance

With Dollarama importing a lot of its products from China, its results could be weighed down by trade issues. Although Canada hasn't been aggressive on trade the way the U.S. has, that doesn't change the fact that Canada-China relations have not been strong as of late. Stemming to back in December, when Huawei's CFO was arrested in Canada, we've seen a movement in China to boycott one Canadian company.

The concern is that if these geopolitical issues continue, there could be some fallout for Dollarama, particularly with its suppliers. While these factors haven't had an impact thus far, that doesn't mean they aren't at risk of happening, especially if relations between the two countries don't improve soon. If Dollarama forecasts tougher quarters ahead as a result of these issues, that could be enough to send the stock reeling.

Expectations for the future can often weigh a stock down more so than its most recent results.

Same-store sales growth will be key

The one number that can dictate which direction the stock goes after earnings is same-store sales growth. When Dollarama was doing no wrong, its same-store sales number was growing in the double digits. However, we've seen it come back down to earth, and last quarter it was only 5.8%.

If the company continues at this rate, it will be difficult for investors to justify a high premium of 30 times earnings for the stock.

Takeaways for investors

Dollarama stock has been performing very well this year, making up for a disappointing 2018. But it's unlikely the stock will continue soaring with another mediocre result.

Given Dollarama's high price, lots of question marks about China and sales growth going forward, the stock trading at some high multiples, all signs point to the stock potentially peaking and not being a good buy heading into its next earnings report. Even if the company surprises and does well in Q2, long term, there are still many risks for Dollarama.

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