



3 Reasons to Buy Dollarama (TSX:DOL) Today

Description

Dollarama ([TSX:DOL](#)) has been on a roll, with its stock up more than 200% the last five years.

Its astronomical growth has been spurred by increased company-wide sales, from better merchandising, the slowdown of price increases, the roll out of its online shopping website, and now, through a wider product offering to customers, it again has driven an increase in sales.

Dollarama has continuously made prudent decisions in regard to the future direction of the business, and reading the [earnings report](#), it seems as though management knows exactly what Dollarama's customers are looking for.

Solid earnings results

The company continued to post impressive revenue-growth numbers again in the second quarter. Its sales came in at just under \$950 million; this was a massive 9% increase from the same quarter the prior year. Comparable-store sales were up 4.7%; however, due to the company holding off on price increases, the gross margin declined slightly from 45% to 43.7%.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) — a top metric for identifying operating performance — was up 3.5% in total, but as a percentage of sales, it was down 150 basis points, again due to lower margins.

The total increase in income, though, shows that it was the correct move to hold off on price increases, as the volume of sales is more than making up for the loss in margin at the moment.

Dollarama also opened 14 new stores in the second quarter; this was quite a bit more than the eight net new stores it opened in the same quarter last year.

Altogether, earnings were pretty solid, and management's plan to continue growth seems to be spot on. Building up its growth opportunities in countries outside Canada seems like the next logical move.

Dollarcity acquisition

Dollarama has also exercised its option to buy Dollarcity, a chain of dollar stores in Latin America. The transaction, which was announced at the beginning of July and closed mid-August, is worth around US\$90 million.

Dollarama made an upfront payment of just over \$50 million and will pay the remaining amount next year. For its purchase, Dollarama received a 50.1% stake in the Latin American company.

The remaining portion that Dollarama will owe of its acquisition is said to be due in the third quarter of its fiscal 2021 year and will be somewhere in the neighbourhood of \$70 million.

The final price is not yet known, because it will be based on a five times multiple of Dollarcity's EBITDA for the year ended June 30, 2020.

As of the most recent quarter ending, Dollarcity had more than 190 total stores with 91 of those locations in Colombia. It also operates 45 in El Salvador and 51 in Guatemala.

Forward guidance

In the earnings report, Dollarama made some key revisions upward to important metrics for its forward guidance. This is a positive sign and shows the company is seeing real momentum in its growth driven by more satisfied customers.

The company has revised upward its estimate of comparable store sales to a range of 3.5-4.5% for this year, fiscal 2020.

It expects to open between 60 and 70 stores this year, do nearly 30% in EBITDA margin, and will spend roughly \$130-\$140 million on capital expenditures.

Bottom line

All in all, it was another solid quarter for Dollarama. It continues to impress with its consistent growth numbers and healthy balance of comparable store sales and new stores impacting the company's revenue.

With its new growth opportunities in Latin America, Dollarama is an attractive investment — one that warrants its stock price a healthy premium.

At a price around \$48, the stock has a lot of room to continue to grow, along with the company and its operations.

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