



Investors: Is it Time to Reconsider Your Investment in Dollarama (TSX:DOL)?

Description

Shares of **Dollarama** ([TSX:DOL](#)) have had an impressive run over the last few years. The stock is up 14.6% in the last 12 months and 204% in the last five years. Dollarama has returned a solid 50% year to date and has created significant investor wealth. But now, with these increases in the company's stock price, Dollarama is no longer an attractive investment.

The stock is expensive and trading at premium valuations. It might correct significantly in a downturn, driving shareholder returns lower.

A look at Dollarama's valuation and growth estimates

Dollarama is estimated to grow sales by 7% to \$3.8 billion in fiscal 2020 (ending in January). Sales are then estimated to rise by 7.6% to \$4.09 billion. Comparatively, analysts expect Dollarama to grow earnings per share by 8.4% in 2020 and 17.1% in 2021.

The company's earnings per share are estimated to grow at an annual rate of 11.8% in the next five years. During its stupendous bull run since 2014, Dollarama increased its earnings by 20% annually.

Dollarama stock is trading at a forward price-to-earnings multiple of 22.6, which indicates that the stock is overvalued, considering its long-term earnings growth. Why would investors want to pay a premium for a stock that is growing sales in single-digit percentages?

Comparable store sales rose 4.7% in the July quarter

Dollarama announced its fiscal second quarter of 2020 results earlier this month and reported sales of \$946.4 million — a rise of 9% year over year. However, comparable store sales were up 4.7% in the July quarter.

Dollarama's gross margin fell to 43.7% from 45% in the prior-year period. Though EBITDA grew 3.5% year over year, the EBITDA margin was 29.8% compared to 31.3% in Q2 of 2019. The operating

margin fell from 24.9% to 23.4% in the same period.

The company reported adjusted earnings per share of \$0.45, which was 2.2% below analyst estimates of \$0.46. Dollarama stock has lost 1.4% since its second-quarter results on September 12.

Investors need to wait for a pullback

While Dollarama's valuation multiples are high, the stock remains a solid bet for the long term and will be attractive after a pullback. Investors need to buy Dollarama at every major dip. The company has over 1,250 stores in Canada and continues to expand its network.

In early 2019, DOL launched an online store to gain a foothold in the e-commerce segment. The company aims to grow sales, profit margins, and cash flows by expanding its store network in Canada. Dollarama has stated that it would open 60-70 new stores annually. It is looking to increase [product offerings across stores](#). Dollarama already sells over 4,000 products year round.

Dollarama completed the acquisition of a 50.1% stake in Latin America's Dollarcity. The latter has 192 stores in Colombia, El Salvador, and Guatemala. Dollarcity is looking to add 40-50 new stores in 2019 and has opened 23 stores in the first six months of this year.

This acquisition and the opening of new stores will drive company revenue higher in the upcoming quarters. Dollarama will also be a solid defensive stock and might outperform markets in a recessionary environment.

Analysts have a 12-month average target price of \$50.92 for Dollarama, indicating an upside potential of 6.4% from the current price.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date

2025/09/30

Date Created

2019/09/25

Author
araghunath

default watermark

default watermark