What to Expect When Dollarama (TSX:DOL) Reports Q1 Earnings

Description

Dollarama (TSX:DOL) will announce its first-quarter results on June 10. Here's what to expect from Dollarama's Q1 earnings.

Higher sales, low profitability

Similar to most of its peers, Dollarama's top-line is likely to benefit from the surge in demand as customers ramped up their purchases in March. The value retailer earlier stated that it is witnessing a strong surge in the number of transactions for general merchandise and consumables products due to the stockpiling activities following the COVID-19 outbreak. However, its bottom line could take a hit from an increase in costs.

Apart from a spike in demand, Dollarama's broad network of stores, loyal customer base, expanded offerings of everyday essentials, and value pricing should support its top-line in the first quarter. However, reduced store hours and challenges on the production flow could remain a drag.

While sales could continue to grow, Dollarama's profitability could take a hit from incremental expenses related to the COVID-19 pandemic and an increase in employee pay.

Now what

Despite short-term challenges, Dollarama's fundamentals remain strong. Dollarama's low pricing should continue to appeal to masses and act as a key growth catalyst. Besides, its expanded offerings and presence in strategic locations should continue to drive traffic.

From a competitive landscape, Dollarama is well ahead of its peers. The value retailer has a large stores base strategically spread across all the 10 provinces. Its store count is about 2.5 times more than its four biggest competitors combined.

Also, Dollarama's financial metrics look strong. The company continues to generate industry-leading same-store sales and EBIT margins. Investors should note that Dollarama's sales have increased at a CAGR of about 12% over the past 11 years. Meanwhile, its same-store sales grew at an average rate of 5.6% during the same period.

Strong sales and operating leverage drove stellar growth in its profitability. Dollarama's EBITDA increased at a CAGR of 16.1% in the last nine years. Besides, its net earnings have grown at a CAGR of 19.1% during the same period.

Investors should note that Dollarama's EBIT margins are well ahead of its peers. For instance, Dollarama's LTM EBIT margins of 22.9% are roughly twice or thrice of its Canadian and the U.S. peers.

Bottom line

While Dollarama's profitability could stay muted in the near-term, investors with long-term investment horizon shouldn't bother much. The company's low fixed price points, convenient store locations, and a broad assortment of branded and unbranded merchandise should continue to drive store sales.

Moreover, its direct product sourcing, favourable sales mix, and store productivity should continue to support margin expansion.

Dollarama continues to expand its stores base, which should support future growth. Its store count has increased at a CAGR of 7.9% over the last nine years. Besides, the dollar store operator plans to open about 400 more stores by 2027 and is targeting underpenetrated markets of Ontario and Western Canada. The company also acquired a 50.1% stake in Dollarcity, which bodes well for future growth.

The retailer is also targeting bulk buyers through its online offerings. Dollarama launched its online store for customers who prefer to buy products in bulk. Currently, Dollarama offers about 1,000 products for online purchases, which can be delivered across Canada.

Dollarama's solid growth prospects, defensive business model, and strong liquidity position make it a must-have stock for wealth creation.

CATEGORY

1. Coronavirus

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