2 Things to Watch for When Dollarama (TSX:DOL) Reports Earnings Next Month

**Description**

**Dollarama Inc** (TSX:DOL) reports its second-quarter results on September 2 and it'll be a big test for the popular dollar store chain. With the economy in a recession and COVID-19 still a big concern for many Canadians, the quarter will be a good indicator of just how resilient Dollarama is in these challenging times.



Low-cost retailer **Walmart** recently blew past its quarterly earnings results earlier this week, but its e-commerce sales rose by 97% during the period. Dollarama also has an online website where consumers can buy goods in bulk, but it's not likely going to be the difference between the company having a strong quarter and a bad one.

The dollar store chain predominately benefits from in-store traffic and that's going to be the key to a good quarter. In particular, here are the two items that investors will want to keep a close eye on when Dollarama reports its earnings:

## Comparable store sales

In Q1, Dollarama's comparable-store sales were up by 0.7% year over year, and that's after excluding stores that were closed temporarily during the period, resulting in modest sales growth of 2% for the quarter. If comparable-store sales numbers remain soft in Q2, it could be a sign that people are opting for retailers with better online capabilities, such as a Walmart or **Amazon**. If that's the case, that could jeopardize the safety of Dollarama as an investment during the COVID-19 pandemic.

While the dollar store is a convenient place to shop when you're trying to save money, if consumers are fueled more by safety and avoiding physical trips to the store, then having the lowest prices may not be enough to drive the growth that dollar store chains like Dollarama are hoping for. That could be a problem for the company and could make for a disappointing Q2.

## Operating income

Dollar store chains operate as efficiently as they can and with health officials imposing greater COVID-19 measures for safety, that cuts into the store's ability to produce a profit. And if Dollarama passes those costs onto consumers, then its products don't appear as inexpensive as they once did.

It becomes a lose-lose situation for the discount retailer. In Q1, Dollarama's operating income of $149.7 million was down by 11.2% from the prior-year period. It was 17.7% of sales, whereas a year ago 20.4% of the top line made it through to operating income.

Although more stores are now open, there are also more protocols in place for COVID-19 and they could impact the profitability of Dollarama for the foreseeable future.

## Is the stock a buy today?

Shares of Dollarama are up about 1% year to date. The stock's recovered from the market crash back in March. But it's also currently trading at 28 times its earnings, which makes it an expensive buy given its modest growth rate. And the problem is that both its sales and profit numbers could decline even further in Q2, making it an even worse buy.

For now, this is a stock I'd steer clear of as there are too many question marks surrounding Dollarama's business to make it a buy. And without a strong e-commerce site, there's little reason to be optimistic that online sales can help offset lagging in-store sales numbers.



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