1 Dollar Store Bargain Bin Pick for Value Investors Today

Description

Dollarama's (TSX:DOL) valuation has historically been quite expensive relative to the industry. Indeed, this is a company with a pretty impressive growth profile. If you haven't noticed, investors still like growth today.

However, of late, Dollarama has looked a heck of a lot cheaper. It's now trading near what some might call a "value" range relative to the company's historical levels. Here's why I'm bullish on this stock right now.

Dollarama earnings broadly bullish for value investors

A lot has changed for Dollarama since last December. Its sales were impacted following the government's imposition of stricter restrictions to prevent the spread of the virus. These stringent measures led to a prolonged decline in-store traffic and subsequently its sales for the entire fourth quarter.

Dollarama disclosed that it had earned approximately $174 million, which is down from the previous year's profit of $179 million. Additionally, Dollarama's total transaction volume was down by 21.4%. Indeed, this decrease is primarily due to the limit set on the number of customers that can enter the stores at one go.

However, the size of the transactions increased by 27%, as customers in the store made more purchases. Thus, the company's earnings per share of $0.56 was in line with analysts' expectations. There was a 0.2% year-over-year decrease in comparable store sales of Dollarama. However, this doesn't consider stores that are temporarily closed.

I think, broadly, investors can view these earnings as positive. Given the impact the pandemic has had on physical retail, Dollarama has been one of the steadiest retailers out there. The company's recent dividend increase of 7% highlights the optimistic view of Dollarama's management team. I think investors have a lot to be positive about as well.

Growth on the horizon for Dollarama

Yes, some impacts of the pandemic are likely to continue to be felt by Dollarama in the short term. However, over the long term, the company is very bullish on growth.

Previously, Dollarama had set a target to open 1,700 stores by the end of 2027. However, Neil Rossy, the CEO and president of this Montreal-based retailer, disclosed that it plans to have 2,000 stores in Canada by the next decade. Indeed, this is nearly a 50% increase.

This announcement comes following a prudent evaluation of Dollarama's potential and market dynamics. Dollarama will stick to this plan, although the latest quarter was challenging for the company in terms of sales.

Bottom line

Dollarama's earnings took a hit for the quarter ended January 31 due primarily to the pandemic. However, the increase in dividend and the company's expansion plans should provide optimism for investors bullish on this stock.

Indeed, at these levels, Dollarama's valuation is once again attractive. I think now could be a great time for long-term investors to consider adding this stock to their portfolio.

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