Market Research

Weekly Equities Update

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Summary

Over the past week, May 13th to May 18th, we have seen slight losses in equities, with the majority of the gains coming from consumer discretionary, energy, and industrials.

Continued gains in the energy sector are in-line with the rising oil prices caused by the United States withdrawing from the Iran Nuclear Deal. There are also additional concerns for adequate oil supply due to the U.S. imposing new sanctions on Venezuela, pushing prices up even higher.

Company Highlight

Dollarama (DOL:TSX) is an interesting company to keep an eye on over the next few quarters as we head deeper into the late-cycle phase of the expansion our economy has been seeing. Dollarama operates hundreds of dollar stores across Canada that sell all items for $4 or less with retail operations in every Canadian province.

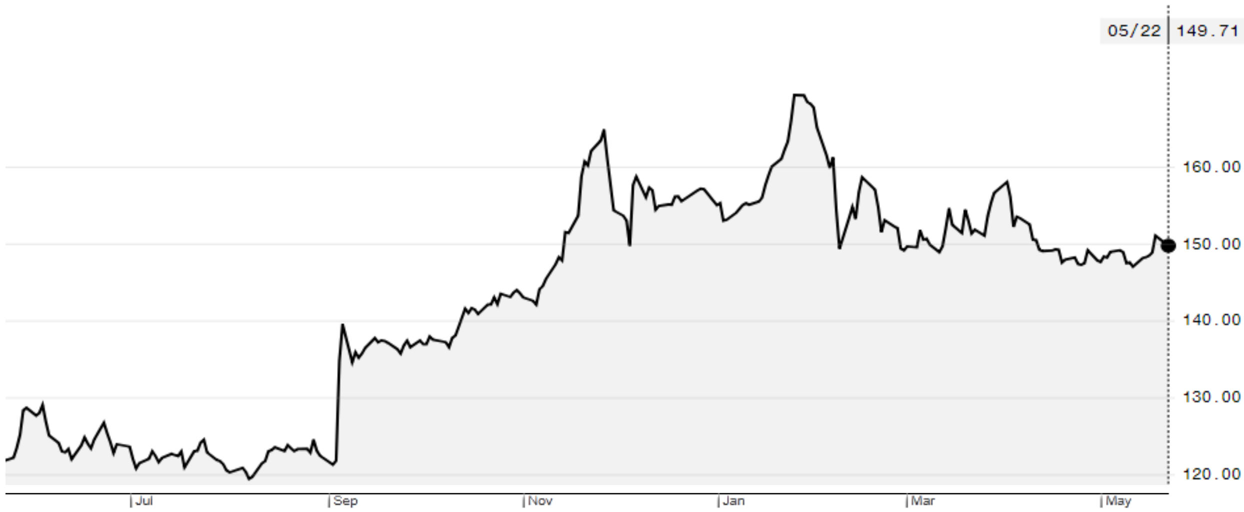
Dollarama is a defensive stock with a low beta of 0.26, meaning that a slowdown of the economy wouldn't cause it to decrease as much as the entire market. Also, simply by analyzing the nature of the business, we can expect more people to visit these stores if the economy slows down due to the lower price points they offer. As they increase their store count across Canada, we can see even greater top-line (sales / revenue) growth going forward and bottom-line (net income / net earnings) growth following shortly as payback periods per store are around 2-3 years.[1] Also, if some of the items don't attract more shoppers, they will still tend to sell similar amounts as these items are more-so quick-stop consumer staples rather than consumer discretionary products (e.g., arts supplies, party supplies, wrapping paper, etc.).

Risks that Dollarama faces include increased competition and increasing product costs. Increased competition comes from Dollar Tree and Asian discount retailer Miniso expanding to Canada. Increased product costs are a result of increased minimum wage and a decrease in the unemployment rate which causes a lack of qualified and available workers.

Another interesting thing about Dollarama is that it is currently in the middle of a leveraged recapitalization of the corporation. This means that it has taken on large amounts of debt in order to repurchase large amounts of its outstanding shares, with the authorization to purchase up to 5.7 million common shares out of the 112.8 million it has outstanding until Jun 18th. A result of this is that its retained earnings have turned negative even though it has an RoAA of over 20%. This will also be causing the price to increase and provides support levels to the company's shares if they begin to decrease.

[1] https://www.ctvnews.ca/business/dollarama-says-it-sees-plenty-of-room-to-expand-in-canada-1.3347190

Overall, Dollarama is an interesting company to keep an eye on to see how all the above factors affect its various stakeholders.



Week Over Week Index Performance by Sector

TSX	Up	Down
Materials	21	28
Communications	5	1
Consumer Discretionary	14	7
Consumer Staples	6	5
Energy	39	6
Financials	19	6
Health Care	2	2
Industrials	12	8
Real Estate	8	12
Technology	6	4
Utilities	4	10

TSXV	Up	Down
Materials	51	112
Consumer Discretionary	3	3
Consumer Staples	1	3
Energy	14	11
Financials	5	0
Health Care	13	8
Industrials	9	11
Real Estate	4	-1
Technology	13	12

NASDAQ	Up	Down
Materials	41	17
Communications	14	24
Consumer Discretionary	152	87
Consumer Staples	52	30
Energy	30	21
Financials	263	140
Health Care	317	161
Industrials	142	86
Real Estate	17	26
Technology	233	215
Utilities	3	13

S&P500	Up	Down
Materials	16	5
Communications	1	5
Consumer Discretionary	47	31
Consumer Staples	17	20
Energy	29	3
Financials	26	42
Health Care	28	29
Industrials	47	23
Real Estate	1	23
Technology	18	36
Utilities	0	28

Dow Jones	Up	Down
Communications	0	1
Consumer Discretionary	2	2
Consumer Staples	3	0
Energy	1	1
Financials	0	5
Health Care	2	2
Industrials	4	1
Technology	0	5

Sources: Bloomberg, Questrade IQ Edge, S&P Capital IQ, Thomson Reuters