INVESTOR'S EDGE

Dollar General, in the midst of a turnaround, is a bargain

Off its all-time high, patient investors should find the stock attractive.

"Don't buy 'cheap' stocks just because they're cheap. Buy them because the fundamentals are improving."
— Peter Lynch, famed investor

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Who doesn't love a bargain?

I know Investors' Edge readers certainly do.

With the Dow Jones Industrial Average at an all-time high, having just passed 39,000, it can take work to find a quality company selling significantly below its 52-week high.

Dollar General (ticker symbol: DG) is one such company. Founded in 1939, Dollar General is the largest discount retail chain in the country, boasting more than 19,000 stores across the United States and Mexico. The company is a one-stop shop for inexpensive household essentials including toiletries, toys, cookware, cleaning supplies, food, beverages, and electronics.

Dollar General is especially popular in rural America with a high concentration of locations in towns and areas with less than 20,000 people. In turn, Dollar General is the primary, and sometimes only, retail shopping option for many Americans.

This fact has made Dollar General a controversial company. Its practice of opening locations in so called "food deserts" in low-income areas has been alleged to perpetuate poverty and provide lower quality food choices. The stores are packed to the brim with inexpensive merchandise and are generally staffed by a small number of employees. This has led to above average amounts of theft (shrink) and worker safety complaints.

Attention to these negative highlights increased significantly in 2023 which also hurt its stock price. The fact is, however, Dollar General fundamentally remains a very profitable business that I believe will reward patient investors.

Since its IPO in 2009, Dollar General has been an excellent stock, rising more than 500% and selling around $140 at the time of this writing. However, in late 2022, the stock was much higher, selling around $260 per share before it took a 50%+ walloping on poor earnings — primarily driven by inflationary pressures, supply chain issues, and shrinkage.

I believe the stock has been excessively punished over the last 18 months and

Dollar General is profitable and is expanding significantly *Abbey Oldham, MLive.com*

currently offers an attractive entry point for long-term investors. It should be noted that the stock has rallied nicely off its low of around $104.

Dollar General is on the rebound, recently bringing back its retired and highly regarded CEO, Todd Vasos, who was at the helm from 2015 to 2022. During that time, Dollar General opened 7,000 stores, created 60,000 new jobs, and doubled its market capitalization. Vasos has stressed a "back to the basics top-to-bottom approach" to address Dollar General's challenges.

The company has begun a comprehensive review of its product offerings and plans to aggressively sell off and eventually eliminate unpopular, more difficult to sell merchandise. This year the company will also remodel 1,500 of its stores and invest $50 million in staffing and training.

Dollar General's end goal is to change its reputation for cluttered, understaffed locations into stores that are clean, organized, and more efficient.

Dollar General continues to aggressively expand its store footprint, opening its first location in Mexico last March, and also plans to open 800 new locations across the United States this fiscal year. These include newer "pOpshelf" locations which appeal to wealthier and more suburban shoppers. Dollar General expects to operate 1,000 pOpshelf stores by the end of 2025 and is bullish on their ability to break into a more affluent customer base.

The company has also ramped up its introduction of its own private-label brand which have higher margins and are popular amongst customers similar to the Kirkland Costco private-label brand.

As I mentioned earlier, I believe Dollar General's stock is selling at a bargain. The company trades at a discounted 16.3 price-to-earnings ratio, which is more than 20% lower than its five-year average of 21.13. Furthermore, top competitors including Dollar Tree, Walmart, and Five Below, trade at far higher valuations — 28, 31, and 39 times respectively.

At its essence, Dollar General is a turnaround story. CEO Vasos has promised to reinvigorate the brand and invest for growth.

The company remains highly profitable and is expanding significantly. Still selling significantly off its all time high and at a sizeable valuation discount to its peers, I think Investors' Edge readers would do well to snap up this bargain while they still can.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com