



Dollar General Corp. (DG)

Updated December 6th, 2022 by Prakash Kollu

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| Current Price: | \$245 | 5 Year CAGR Estimate: | 6.4% | Market Cap: | \$54.98B |
| Fair Value Price: | \$199 | 5 Year Growth Estimate: | 10.0% | Ex-Dividend Date: | 12/30/22 |
| % Fair Value: | 123% | 5 Year Valuation Multiple Estimate: | -4.1% | Dividend Payment Date: | 01/17/23 |
| Dividend Yield: | 0.9% | 5 Year Price Target | \$321 | Years Of Dividend Growth: | 8 |
| Dividend Risk Score: | A | Retirement Suitability Score: | D | Rating: | Hold |

Overview & Current Events

Dollar General Corporation opened its first dollar store in 1955. The company went public in 1968 and was merged into a privately held company in 2007. The company conducted an initial public offering in November 2009. Today, it is the leading U.S. “dollar store”. About 80% of its items are offered at \$5 or less. Dollar General sells a wide variety of merchandise in four categories: consumables, seasonal, home products, and apparel. About 77% of sales are from consumables. Dollar General operated 18,566 stores as of July 29, 2022. Most stores are located in towns with 20,000 or fewer people and are about 7,400 sq. ft. Total sales were \$34,220M in FY 2021.

Dollar General reported Q3 FY2022 results on December 1st, 2022. The company is performing well because of new store openings, higher transaction amounts, and more customer traffic, offset by store closures. However, margins are under pressure because of inflation and supply chain challenges.

Net sales increased 11.0% to \$9,464.9M from \$8,517.8M on a year-over-year basis as organic growth rose 6.8% and new stores opened. Diluted earnings per share increased 12.0% to \$2.33 from \$2.08 in the prior year despite supply chain disruptions and inflation. The company experienced growth in consumables (+14.3%), seasonal (+3.2%), and home products (+4.2%), offset by a decline in apparel (-18.8%).

The new pOpshelf store concept is performing well. Dollar General plans to open 1,000 stores by end of 2025. The company is expanding internationally for the first time and opening 10 stores in Mexico in fiscal 2022.

Dollar General maintained guidance for about 11% revenue growth and organic sales growth of 4.0% to 4.5% in fiscal 2022 but lowered diluted EPS growth of 7% to 8%.

Growth on a Per-Share Basis

| Year ¹ | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|----------------|----------------|
| EPS | \$2.85 | \$3.17 | \$3.49 | \$3.95 | \$4.43 | \$4.49 | \$5.97 | \$6.64 | \$10.62 | \$10.17 | \$11.06 | \$17.81 |
| DPS | \$0.00 | \$0.00 | \$0.00 | \$0.88 | \$1.00 | \$1.04 | \$1.14 | \$1.25 | \$1.40 | \$1.62 | \$2.20 | \$3.38 |
| Shares² | 327 | 317 | 304 | 287 | 275 | 269 | 259 | 252 | 241 | 230 | 225 | 200 |

Dollar General’s top line continues to grow due to organic sales increases and new store openings. The company is investing heavily in growth and is expecting capital expenditures up to \$1.4B to \$1.5B in fiscal 2022. The company expects to open 1,025 new stores, remodel 1,795 stores and relocate 125 stores in fiscal 2022. Dollar General is expanding into Washington, Wyoming, and Mexico, and quickly ramping up the pOpShelf concept. Although capital expenditures are high and are weighing on near-term earnings per share, it should drive top line growth and profitability in the future. COVID-19 benefited Dollar General, and provided a tailwind in 2020, but comparable earnings declined in 2021. After that, we are forecasting 10% earnings per share growth out to fiscal 2027. The company continues to buy back shares aggressively with \$2.5B in FY 2020, \$2B in FY 2021, and \$2.75B in FY 2022. We are anticipating on average a 2% to 3% reduction in share count per year out to fiscal 2027. Dollar General initiated a dividend in FY 2015, and we are forecasting 9% growth rate to FY 2027. The payout ratio is very low and there is much room for future dividend growth.

¹ Dollar General’s fiscal year ends on the Friday nearest January 31st in following calendar year.

² Share count in millions.

Disclosure: This analyst is long DG.



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Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 16.8 | 17.1 | 17.4 | 18.4 | 18.1 | 17.5 | 17.2 | 21.1 | 18.0 | 21.2 | 22.2 | 18.0 |
| Avg. Yld. | N/A | N/A | N/A | 1.2% | 1.2% | 1.3% | 1.1% | 1.2% | 0.8% | 0.8% | 0.9% | 1.0% |

Dollar General's stock price is up slightly since our last report. The company is performing well because of its market positioning but margins are under pressure. Our fiscal 2022 earnings estimate matches updated consensus at \$11.06 per share. We believe a reasonable long-term earnings multiple is 18X, near the trailing 10-year average. Our fair value estimate is now \$199. Our 5-year price target is now \$321.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | N/A | N/A | N/A | 22% | 23% | 23% | 19% | 19% | 13% | 16% | 20% | 19% |

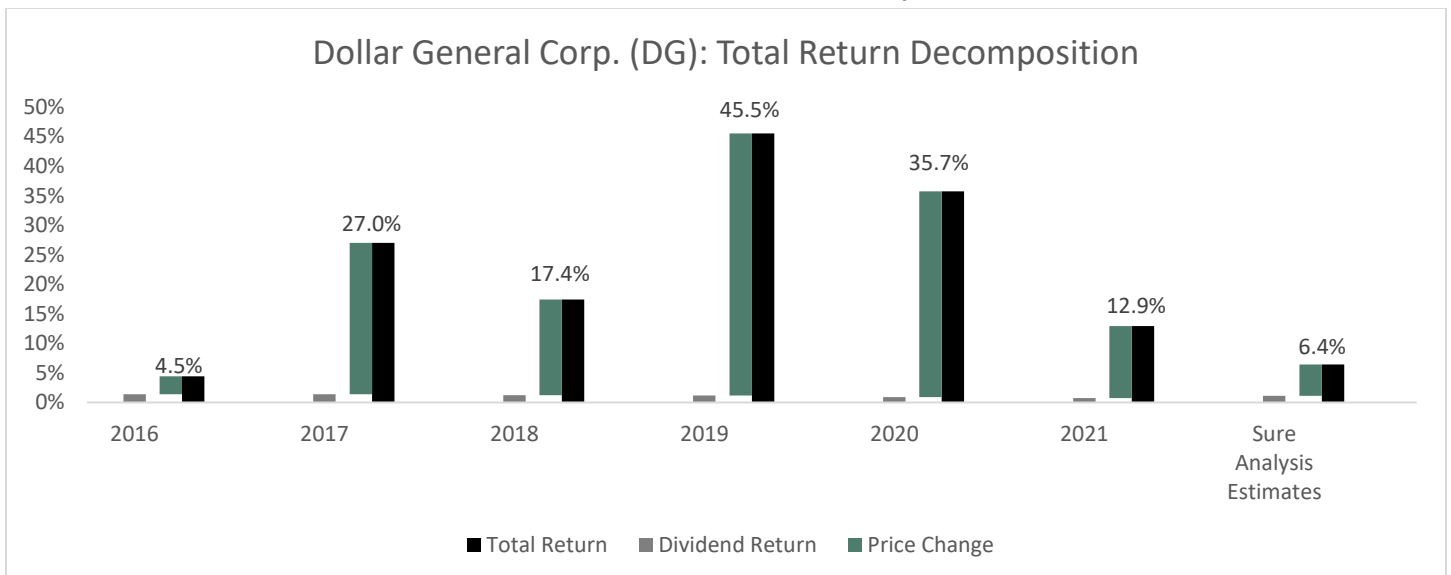
Dollar General's main competitive advantage is its industry positioning, small store formats and location in small towns. Dollar General benefits from lower distribution costs due to the small store format and lower number of stocked items. Furthermore, the lower average transaction cost limits competition from online retailers. As a discount retailer, Dollar General is highly resistant to recessions since consumers are more likely to trade down their spending to dollar-store chains during economic downturns. In fact, Dollar General grew earnings per share during the Great Recession and the top and bottom lines clearly benefitted during the COVID-19 pandemic.

Dollar General has a reasonably conservative balance sheet. Long-term debt is \$5,985.7M offset by \$362.7M in cash. The interest coverage ratio is over 18.2X. The leverage ratio is now about 2.8X.

Final Thoughts & Recommendation

At present we are forecasting a 6.4% annualized total return for the next five years from a dividend yield of 0.9%, 10.0% EPS growth, and (-4.1%) P/E multiple contraction. Dollar General is performing better than expected in 2022 despite supply chain disruptions and inflation. The retailer is well-positioned for inflation and recession as consumers seek lower prices and value. We rate Dollar General a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 14807 | 16022 | 17504 | 18910 | 20369 | 21987 | 23471 | 25625 | 27754 | 33747 |
| Gross Profit | 4698 | 5085 | 5436 | 5803 | 6306 | 6783 | 7221 | 7804 | 8489 | 10719 |
| Gross Margin | 31.7% | 31.7% | 31.1% | 30.7% | 31.0% | 30.8% | 30.8% | 30.5% | 30.6% | 31.8% |
| SG&A Exp. | 3207 | 3430 | 3700 | 4033 | 4366 | 4719 | 5214 | 5688 | 6187 | 7164 |
| D&A Exp. | 275 | 303 | 333 | 342 | 352 | 380 | 404 | 454 | 505 | 574 |
| Operating Profit | 1491 | 1655 | 1736 | 1769 | 1940 | 2063 | 2008 | 2116 | 2302 | 3555 |
| Op. Margin | 10.1% | 10.3% | 9.9% | 9.4% | 9.5% | 9.4% | 8.6% | 8.3% | 8.3% | 10.5% |
| Net Profit | 767 | 953 | 1025 | 1065 | 1165 | 1251 | 1539 | 1589 | 1713 | 2655 |
| Net Margin | 5.2% | 5.9% | 5.9% | 5.6% | 5.7% | 5.7% | 6.6% | 6.2% | 6.2% | 7.9% |
| Free Cash Flow | 536 | 560 | 675 | 953 | 887 | 1045 | 1156 | 1409 | 1453 | 2848 |
| Income Tax | 459 | 545 | 603 | 616 | 688 | 714 | 368 | 426 | 489 | 749 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 9689 | 10368 | 10868 | 11209 | 11258 | 11672 | 12517 | 13204 | 22825 | 25863 |
| Cash & Equivalents | 126 | 141 | 506 | 580 | 158 | 188 | 267 | 235 | 240 | 1377 |
| Inventories | 2009 | 2397 | 2553 | 2783 | 3074 | 3259 | 3609 | 4097 | 4677 | 5247 |
| Goodwill & Int. Ass. | 5575 | 5558 | 5546 | 5540 | 5540 | 5539 | 5539 | 5539 | 5539 | 5538 |
| Total Liabilities | 5014 | 5382 | 5465 | 5499 | 5880 | 6266 | 6391 | 6787 | 16123 | 19201 |
| Accounts Payable | 1064 | 1262 | 1286 | 1388 | 1494 | 1558 | 2010 | 2385 | 2861 | 3614 |
| Long-Term Debt | 2618 | 2772 | 2819 | 2725 | 2971 | 3212 | 3006 | 2865 | 2912 | 4131 |
| Shareholder's Equity | 4675 | 4985 | 5402 | 5710 | 5378 | 5406 | 6126 | 6417 | 6703 | 6661 |
| D/E Ratio | 0.56 | 0.56 | 0.52 | 0.48 | 0.55 | 0.59 | 0.49 | 0.45 | 0.43 | 0.62 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Return on Assets | 8.0% | 9.5% | 9.7% | 9.7% | 10.4% | 10.9% | 12.7% | 12.4% | 9.5% | 10.9% |
| Return on Equity | 17.6% | 19.7% | 19.7% | 19.2% | 21.0% | 23.2% | 26.7% | 25.3% | 26.1% | 39.7% |
| ROIC | 10.5% | 12.7% | 12.8% | 12.8% | 13.9% | 14.7% | 17.3% | 17.3% | 18.1% | 26.0% |
| Shares Out. | 338.1 | 327.1 | 317.1 | 303.5 | 286.7 | 268.7 | 259.1 | 251.9 | 246.9 | 242.0 |
| Revenue/Share | 42.90 | 47.90 | 54.05 | 61.86 | 69.00 | 77.89 | 85.86 | 96.30 | 107.55 | 134.95 |
| FCF/Share | 1.55 | 1.67 | 2.08 | 3.12 | 3.00 | 3.70 | 4.23 | 5.30 | 5.63 | 11.39 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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