



Sleep Country Canada Holdings Inc.: A Retailer That's Actually Thriving

Description

Contrary to what we have been seeing from the retailing space in Canada and the U.S., **Sleep Country Canada Holdings Inc.** ([TSX:ZZZ](#)) is thriving.

Sleep Country is an interesting company which has a \$1.3 billion market capitalization and which has performed well over the last few years, both in terms of stock price and business performance.

Investors have been happy with this company, as the stock has a one-year return of 94%, which reflects the strength in the company's performance during this time and the promise of its strategy.

The company's margins are top tier, as are its return on equity (ROE), return on investment (ROI), and return on capital (ROC). In the latest year, the company reported an ROE of 20%, an ROI of 12.7%, and an ROC of 11% — all really strong numbers for any industry.

And this latest quarter is no exception, as we see that the momentum continues. Revenue in the quarter increased 15.8% — a result of a very strong 11.5% increase in same-store sales and the addition of nine new stores. Gross margin increased to 26.2% from the 24.8% posted in the same quarter last year, as distribution expenses decreased to 16.6% of revenue and other costs declined.

This first quarter follows a very successful 2016 with revenue increasing 14.8% to \$523.8 million due to a 10% increase in same-store sales and the addition of 11 stores.

So, the company's strategy has been to open new stores in select market as well as to increase sales of accessories and to renovate existing stores. This strategy is clearly paying off and will continue in the coming year.

Management has stated that the company is on track to meet its goals of adding eight to 12 new stores in 2017 as well as renovating 20-30 stores. Some of the new stores are in existing markets, and others are in new markets, so it's a very exciting initiative.

The retail industry is in the process of a shift; successful retailers are making it, despite the changes taking place, while others are forced into bankruptcy and struggling with mounting losses. **Target Corporation**

([NYSE:TGT](#)) left Canada a couple of years back, and now **Sears Canada Inc.** (TSX:SCC) seems to be on its way out, as losses have continued to mount, and the company has just gone through a disastrous 2016.

Sleep Country is surviving and thriving in this environment, and this says a lot about the company and its prospects going forward.

While, at 23 times 2017 expected earnings, the stock's valuation is on the high side for a retailer, the company has grown significantly over the last few years, and I expect that this momentum will continue. The company also pays a dividend and has a yield of 1.62%.

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Author

karenjennifer

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