Why Sleep Country Canada Holdings Inc. Is Down Over 3%

Description

Sleep Country Canada Holdings Inc. (TSX:ZZZ), Canada's leading mattress retailer, announced its second-quarter earnings results after the market closed yesterday, and its stock has responded by falling over 3% in early trading. Let's break down the quarterly results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity.

An excellent quarter of double-digit top- and bottom-line growth

Here's a quick breakdown of six of the most notable statistics from Sleep Country's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	Q2 2017	Q2 2016	Change
Revenues	$133.05 million	$120.21 million	10.7%
Same-store sales growth	7.5%	12.2%	N/A
Operating EBITDA	$20.19 million	$17.88 million	12.9%
Adjusted net income from operations	$11.89 million	$10.06 million	18.2%
Adjusted earnings per share (EPS)	$0.32	$0.27	18.5%
Total stores in operation	242	233	3.9%

Should you buy on the dip?

It was a fantastic quarter overall for Sleep Country, and it capped off an outstanding first half of the year for the company, in which its revenues increased 13.1% to $257.33 million, its same-store sales increased 9.5%, its operating EBITDA increased 18.8% to $38.36 million, and its adjusted EPS increased 27.7% to $0.60.

However, Sleep Country's second-quarter results came in mixed compared with the consensus estimates of analysts polled by **Thomson Reuters**, which called for adjusted EPS of $0.31 on revenue of $134.44 million, so I think the slight revenue miss is what's sending the stock lower today. That being said, I think the decline represents a very attractive buying opportunity for long-term investors for four primary reasons.

First, it’s one of the best growth stocks in the retail industry. Analysts currently expect Sleep Country to grow its adjusted EPS by 19.1% to $1.62 in 2017, which it can easily achieve following its 27.7% growth in the first half of the year, and by 16% to $1.88 in 2018.

Second, it’s undervalued based on its growth. Sleep Country’s stock now trades at just 23.1 times fiscal 2017 estimated EPS of $1.62 and only 19.9 times fiscal 2018’s estimated EPS of $1.88, both of which are very inexpensive given its aforementioned earnings-growth rates and its long-term growth potential.

Third, it has immense expansion potential, which will help fuel future revenue and earnings growth. Sleep Country opened 11 new stores in 2016, and it has opened seven new stores so far in 2017, bringing its total store count to 242 as of June 30. I think the company could easily have over 350 stores by 2025 by opening 15-20 stores each year, and I think it could accomplish this without ever running into issues related to market densification.

Fourth, it’s a great dividend-growth play. Sleep Country currently pays a quarterly dividend of $0.165 per share, equal to $0.66 per share annually, which gives it a respectable 1.8% yield. It’s also important to note that the company’s two dividend hikes in the last 14 months have it on pace for 2017 to mark the second consecutive year in which it has raised its annual payment, and I think its consistently strong financial performance could allow this streak to continue for the foreseeable future.

With all of the information provided above in mind, I think all Foolish investors should strongly consider using the post-earnings weakness in Sleep Country’s stock to begin scaling in to long-term positions.

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