



Growth Investors, Take Notice: This High-Quality Retail Stock Is on Sale

Description

Sleep Country Canada Holdings Inc. ([TSX:ZZZ](#)) shares declined a whopping 13% yesterday, as the company reported third-quarter results that were below expectations. Consensus expectations were for EPS of \$0.66, and the company came in at \$0.63.

As we can see, a miss of three cents is a big deal for a stock that is trading at the lofty valuations that Sleep Country has been trading at.

But that's okay, and I will tell you why.

Firstly, this 13% decline means that we can pick up the stock at a bargain. Trading at \$33.58 at close yesterday, the stock now trades at a P/E multiple of 21 times this year's earnings — down from prior levels of over 23 times.

Secondly, Sleep Country actually [deserves to trade at a premium](#), given its track record of above-average profitability and top-tier returns. In the latest year, the company reported an ROE of 20%, an ROI of 12.7%, and an ROA of 11% — all really strong numbers for any industry.

So, this quarter was disappointing relative to expectations, which, in fact, is the first quarter of lower than expected results in a long time.

Yet the company still posted very strong numbers. Same-store sales growth was 7.3% for the quarter, the gross margin was 33% versus 32.4% last year, and the company is ahead of schedule with its plan for new store openings.

Lastly, the [demise of Sears](#) presents a very big opportunity for Sleep Country, as Sears was Canada's second-largest mattress seller. This leaves a gaping hole for Sleep Country to fill, and with its expansion plans already in full gear, it has a head start.

Another high-quality retailer that reported its results this week is **Indigo Books and Music Inc.** ([TSX:IDG](#)). With same-store sales growth of 2.8%, the company [continues to see momentum](#) in its online platform and merchandising revenue.

Indigo is also undergoing a major shift. The company is rolling out its newly re-imagined concept to transform the stores from a bookstore to a cultural department store for book lovers — the new age department store.

It's perfect timing, as Indigo will surely also benefit from Sears's demise.

And these new stores are seeing results that are blowing away the competition, posting an average revenue growth rate of 16% and improved retail metrics. The company maintains a healthy balance sheet that has cash and short-term investments of \$171 million and no debt.

And in a bold move where many others before them have failed, Chapters has announced its intention to enter the U.S. market with a store in New Jersey, hoping to replicate its success in Canada.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:IDG (Indigo Books & Music)
2. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/24

Date Created

2017/11/03

Author

karenjennifer

default watermark