Why Sleep Country Canada Holdings Inc. Is Soaring Over 12%

Description

Sleep Country Canada Holdings Inc. (TSX:ZZZ), Canada's leading mattress retailer, announced its fiscal 2017 fourth-quarter and full-year earnings results after the market closed on Thursday, and its stock has responded by soaring over 12% at the open of trading today.

The stock still more than 15% below its 52-week high of $42.36 reached back in June 2017, so let's break down the earnings results and the fundamentals of its stock to determine if we should be long-term buyers today.

A very strong quarter to cap off a fantastic year

Here's a quick breakdown of six of the most notable statistics from Sleep Country's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Total revenues	$153.56 million	$135.43 million	13.4%
Same-store sales growth	9.3%	9.9%	N/A
Operating earnings before interest, taxes, depreciation, and amortization (EBITDA)	$25.68 million	$19.12 million	34.3%
Operating EBITDA margin	16.7%	14.1%	+260 basis points
Adjusted net income	$15.83 million	$11.66 million	35.8%
Adjusted earnings per share (EPS)	$0.42	$0.31	35.5%

And here's a quick breakdown of six notable statistics from Sleep Country's 12-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Fiscal 2017	Fiscal 2016	Change
Total revenues	$588.01 million	$523.79 million	12.3%
Same-store sales growth	8.8%	10.0%	N/A
Operating EBITDA	$99.85 million	$85.05 million	17.4%
Operating EBITDA margin	17.4%	16.2%	+120 basis points
Adjusted net income	$61.99 million	$51.10 million	21.3%
Adjusted EPS	$1.65	$1.36	21.3%

Is now the time to buy?

The fourth quarter capped off an outstanding year for Sleep Country, highlighted by 8.8% same-store sales growth and double-digit percentage growth in revenue, operating EBITDA, adjusted net income, and adjusted EPS, so I think the +12% pop in its stock is warranted; furthermore, I would still buy the stock today for three primary reasons.

First, it's undervalued based on its growth. Sleep Country's stock still trades at just 21.6 times fiscal 2017's adjusted EPS of $1.65 and only 19.9 times the consensus EPS estimate of $1.79 for fiscal 2018, both of which are inexpensive given its current double-digit percentage earnings-growth rate and its long-term growth potential.

Second, I think it could easily double its store count. Sleep Country opened 12 net new stores in 2017 to bring its total store count to 247, and it went on to state that it intends "to open eight to 12 stores per year in 2018 and for the foreseeable future." I think the company could easily grow its store count to well over 500 in the long term, and I think it could do this without ever running into issues related to market densification.

Third, it's a stealthy dividend-growth stock. Sleep Country currently pays a quarterly dividend of $0.165 per share, representing $0.66 per share annually, which gives it a solid 1.85% yield. Any dividend is great for a high-growth company like Sleep Country, and it's very important to note that the company's 10% dividend hike in May 2017 has it positioned for 2018 to mark the third straight year in which it has raised its annual dividend payment, and I think its strong financial performance will allow this streak to continue for many years to come.

With all of the information provided above in mind, I think Sleep Country Canada represents the best long-term investment opportunity in the retail industry today, so take a closer look and consider beginning to scale in to a position.

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