

Sleep Country Canada Holdings Inc. Rockets ~15.5% Higher: Time to Buy?

Description

While the brick-and-mortar retail industry struggles to cope with the rise of digital disruptors, many Canadian retailers, like **Sleep Country Canada Holdings Inc.** ([TSX:ZZZ](#)), have been making the jump to new highs. The company recently released its Q4 2017 earnings results, crushing analyst expectations and causing shares to surge 15.5% in a single trading session.

It was truly a remarkable quarter that saw improvements across the board. Total revenues came in at \$153.56 million, up 13.4% year over year. Adjusted EPS was clocked in at \$0.42, up 35.5% year over year, while operating EBITDA margins jumped to 16.7% — up 260 basis points on a year-over-year basis.

The top-line beat was thanks in part to a rock-solid same-store sales growth (SSSG) of 9.3%, which was substantially higher than what analysts were expecting. It wasn't just mattresses that contributed to the higher-than-expected SSSG numbers. A remarkable jump in accessory sales also played a huge part in the SSSG "surprise." Going forward, accessories still present a promising SSSG opportunity, as I've mentioned in many of my [previous pieces](#).

Is Sleep Country immune to the disruption that the broader brick-and-mortar retail space is facing?

I've noted in many previous pieces that Sleep Country is one of the few high-quality retail stocks that you can hold in your portfolio without losing too much sleep by worrying about the **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) effect.

Yes, Amazon sells mattresses, and many [mattress-in-a-box startups](#) like Casper and Leesa have been looking to reinvent the industry, but so far, mattresses remain an item that's best suited for a good, old-fashioned brick-and-mortar physical store. Everybody has their own unique preferences when it comes to beds, and it only makes sense to try before you buy, even if there is a "hassle-free" return policy with digital mattress retailers.

The market for mattress delivery is ridiculously small, but still, Sleep Country has countered with a mattress-in-a-box product of its own called Bloom, offering the same 100-day return policy that's become a standard with its e-commerce peers.

Bottom line

It was a solid quarter for Sleep Country, and I think the post-earnings rally was warranted and could be the start of a sustained move to new highs.

Over the next year, the company's expected to beef up both its physical and digital presence. As many as 12 new physical stores will be opened, while 25-30 existing stores will receive renovations. On the digital front, Sleep Country is expecting to beef up its e-commerce platform, while expanding its Bloom

line of “mattress-in-a-box” offerings. Casper already has several variations of its deliverable mattress, and it looks like Sleep Country is going in the exact same direction.

Sleep Country is an earnings-growth king that’s riding a wave of positive momentum. Don’t sleep at the opportunity to pick up shares before they break out to new highs.

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Date

2025/08/19

Date Created

2018/03/05

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