If You Like to Sleep Well at Night, This Stock May Be the 1 for You

Description

Being able to sleep well with your investment choices is critical. Tossing and turning with your thoughts filled with anxiety can really do a lot of damage to your health and your portfolio. The key is to find companies that you don't mind owning for the long term — ones that have businesses that are likely to last for the long term. Often these stable businesses focus on behaviours or needs that everyone has.

While I may partially be drawn to the company's fantastic ticker symbol, **Sleep Country Canada** (TSX:ZZZ) may be a suitable company. Operating in a relatively necessary business segment, the business of sleep, it seems that the company checks the box of providing a pretty important good to meet a fairly important need. And while some of us may want to sleep more than others, all of us, at some point, need to hit the hay.

Up to this point, Sleep Country seems to be the kind of stock investors are looking for. For one thing, the company has experienced steady demand growth since it became a public company in 1994. It also benefits from the fact that most people replace their mattress every 10-12 years. Many of those people return to the place where they bought their original mattress, making revenue recurring to a degree.

And those revenues have grown, leading to growth in income for the not-so-sleepy mattress company. Over the past six years, Sleep Country has experienced 16% compound annual growth rate (CAGR) of its revenues. Earnings per share also have experienced some growth, increasing over 5% year over year as reported in its Q2 financial report.

Now, sleep-easy investors probably like having regular cash payments coming into their accounts. Sleep Country provides those payments, with a dividend currently sitting at around 2.3%. While this dividend is not massive, it does appear to be secure. The company has a payout ratio of around 54% of free cash flow — pretty reasonable to ensure future payments and potential growth. And while the company does not have a long payout history, it has been raising the dividend for a few years now.

Probably the biggest factor holding me back from investing is the fact that the company is not terribly diversified by geography. While it does have 235 stores and 16 distribution centres across Canada, making it fairly spread out across this nation, there is a limit on how many mattresses people can buy. But the company only currently commands around 25% market share of the Canadian mattress market, so there may still be plenty of room for growth.

I'm also not sure how the company would fare in an economic downturn. I'd like to think that it is recession-proof, but if I lost my job, I'm not sure that I would buy a new mattress. I also wonder how Sleep Country would do in a housing crisis. There are mixed messages coming out of the housing market news, with one source stating a recovery is underway and another saying we are sitting on the precipice of doom. In any event, if there is the chance of a housing downturn, I worry that Sleep Country may be negatively affected.

But even housing crises don't last forever. People will keep on needing to sleep, and Sleep Country is all too eager to provide the means to do so. If you don't fear a housing crisis or recession or are at least a long-term buy-and-hold investor, then this steady Canadian mattress company may help you to collect some dividends while resting a little easier.

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