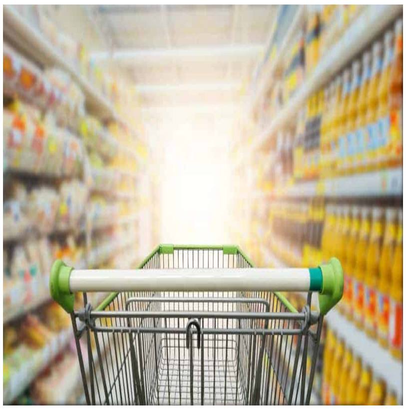

Another 1 Bites the Dust: Slowing Sales Continue to Hit Canadian Retailers

Description

The Canadian retail industry has certainly taken some blows recently, as stock price action has reminded investors about the importance of diversification and preservation of capital.

From **Dollarama's** (TSX:DOL) stock plummeting 25% off of slowing same-store sales growth and a re-rating of the multiple to **Sleep Country Canada Holdings's** (TSX:ZZZ) 20% decline after releasing disappointing third-quarter results on Friday, it is increasingly clear to me that the consumer-led economy is coming to an end, and with it, the good times for retailers, as slowing same-store sales growth has become a universal theme for retail companies.

And while Sleep Country was already seeing this slowing same-store sales growth, third-quarter same-store sales growth was significantly lower than expectations, coming in at an anemic +0.2%.

Bright spots in the quarter

On the plus side, the company's margins came in stronger than expected and stronger than last year, as management focused on efficiencies and cost cutting in order to combat the slowing environment.

Another plus is the fact that the company's investment in the accessories business continues to be a success. In the third quarter, sales of accessories increased 12.8% versus a 2.4% increase in mattress sales.

Lastly, the retailer's e-commerce sales more than doubled and four more new stores were opened.

Long-term outlook

The long-term outlook is still favourable for Sleep Country.

A key reason is the simple fact that what was once its biggest competitor is now gone, and Sleep Country has scale and positioning to capture a big portion of these sales that are up for grabs.

Sears Canada's demise brings with it a great opportunity for Sleep Country, as it was one of Canada's leading mattress retailers.

Sleep Country has more than 25% market share in this market, which is highly fragmented, so there is a real opportunity for continued consolidation.

The company continues to open new stores, and with Sears out of the picture, Sleep Country should receive a big boost to its business over the long term.

Canadian Tire (TSX:CTC.A)

Canadian Tire stock is down almost 18% from its summer highs, as it too buckles under market pressure and slowing sales growth.

With one of the most recognizable brand names and a long history, Canadian Tire, with $13.5 billion in revenue, has an unrivaled position in the Canadian retail industry, and while it offers a diversification that is unmatched by Canadian retailers and will probably be less affected by a downturn in consumer spending, it will be, nonetheless, affected.

A revamping of the brand was embarked upon a few years ago, with more targeted marketing and a huge investment in all things digital.

In the last 10 years, annual dividends have grown at a compound annual growth rate of 16%, and currently the dividend yield is 2.4%.

Conclusion

At the end of the day, I still believe that in good times investors tend to underestimate the cyclical nature of the retail business as well as the intensely competitive environment.

Investors have also seemingly been underestimating the impact of rising interest rates and increasingly indebted consumers.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)
3. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/08/25
Date Created
2018/11/03
Author
karenjennifer