



1 “New” Dividend Stock That Could Rebound in a Big Way in the New Year

Description

Sleep Country Canada Holdings ([TSX:ZZZ](#)) isn't exactly a new stock, as it's been trading for well over three years now, but after its recent 54% plunge, the dividend yield has more than doubled to 3.9% such that the name is now an intriguing name for [income-oriented investors](#).

Now, the Canadian mattress retailer is coming off a catastrophic implosion and is in the midst of a fairly violent market-wide decline, so income investors should expect further choppy moves over the near-term before shares have the opportunity to take off in 2019 after investors begin to realize that the retailer is more than just another brick-and-mortar player that's destined to go belly up due to up-and-coming competitors that are more effectively leveraging e-commerce.

Back in May, before most of the damage was done to Sleep Country stock, I urged investors to [hit the snooze button](#) on Sleep Country. At the time, the company recently came off of its Q1 earnings results, which I thought was mediocre at best. Moreover, I noted that the company was entering a period of seasonal weakness and that shares would go to sleep for the summer while its up-and-coming digital disruptors nibbled away at its Canadian mattress and sleep accessory market share.

Indeed, Sleep Country became disrupted, and the once impenetrable moat has undoubtedly been eroded due to the rapid rise of mattress-in-a-box companies that started picking up traction amongst young, tech-savvy consumers. Bloom, Sleep Country's own mattress-in-a-box offering, wasn't enough to fight off the pesky up-and-coming mattress-in-a-box retailers who were leveraging e-commerce so effectively.

Sleep Country's response?

Buy one of its major mattress-in-a-box competitors in Endy in a deal worth \$89 million.

While there's plenty of synergies to be had from the deal, most notably the inclusion of Endy mattresses within its brick-and-mortar stores for customers to try before they buy, I believe Sleep Country's most significant problem lies within its millennial-unfriendly in-store experience.

Many folks try mattress-in-a-box offerings because they're convenient, and while the return policies are

attractive, dealing with returns can be more of a hassle than heading on to a local Sleep Country to try out a dozen beds like Goldilocks to find the perfect one.

If I'm in the market for a new mattress however, the biggest Sleep Country deterrent for me was the seemingly commission-based sales staff, which seems to be common to all the locations. Nobody wants to be hounded by a salesperson trying to score a commission. And for most of us, the hassle of dealing with online-ordered mattress returns is less stress-inducing than having to deal with commission-based salespeople.

Sleep Country certainly has the financial flexibility to scoop up its other mattress-in-a-box competitors (Douglas, Leesa, Casper, Tuft & Needle), but as new ones will always pop up, Sleep Country's going to need to focus on its brick-and-mortar roots to solve the real source of its problems.

For brick-and-mortar, it's all about the experiential factor. If customers get hounded by commission-based sales staff, they're less likely to come back — and they'll surely spread the word.

Foolish takeaway on Sleep Country

Sleep Country is a brick-and-mortar retailer at heart, and should management make the stores feel more welcoming to prospective customers; the stock is a screaming bargain at 11.9 times trailing earnings and 1.2 times sales. With a dividend yield that's just south of 4%, income investors may want to begin nibbling on the dip, as I expect the name could come bouncing back once Sleep Country looks to win back the customers that have been lost to its digital competitors.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date

2025/08/14

Date Created

2018/12/30

Author
joefrenette

default watermark

default watermark