Calling All Income Investors: Should You Buy This Cheap Dividend Heavyweight?

Description

Sleep Country Canada (TSX:ZZZ) stock has quietly plunged 54% from peak to trough over the last two years. As an under-the-radar mid-cap, the name probably disappeared from your radar, and rightfully so, after the company has suffered many meagre and unremarkable quarters.

Last year, I'd urged investors to hit the snooze button on Sleep Country stock, citing the lack of meaningful catalysts and mattress-in-a-box (MIB) disruptors as primary reasons why the stock was a poor option going into summer.

"At 21 times trailing earnings, shares don't look like a great value to me anymore. As such, I think shares are going to sleep for the summer, so investors should look elsewhere if they're looking for a thriving retailer," I said. "If you've profited over the last few years, it's a great time to collect your winnings and put them in a name that's a better value."

Little did I know that the stock would plunge and the dividend yield would swell past the 3.5% mark by wintertime. Fast forward to today, and Sleep Country has up-and-coming MIB disruptor Endy in its portfolio (acquired for ~$64 million) alongside its Bloom MIB offering, which I thought was a failure compared to the likes of more popular MIB brands like Casper or Leesa.

Sleep Country's e-commerce platform continues to improve, and with Canada's top MIB retailer suddenly a converted ally for the company, I expect medium-term digital disruptive pressures should be more muted. And while the current valuation is undoubtedly more attractive with shares trading at just 13.8 times trailing earnings (way lower than the +21 times multiple sported over a year ago), I'd still urge gain-hungry growth investors to continue to exhibit caution, as I see no catalysts that could propel the stock back towards its highs.

Mattresses and other sleep accessories are what economists refer to as long-lived, durable products, and when we're in the midst of an economic slowdown, such classes of products tend to experiencethe biggest drop in sales. When the economy is booming, sales of durable goods spike, but whenwe're in an economic slowdown with a medium to high risk of recession, you do not want to get caughtwith an economically sensitive discretionary retailer like Sleep Country.

Foolish takeaway on Sleep Country

Sleep Country stock is cheap, and the yield is rich, but I think most income investors should take a pass in spite of the now compelling valuation. There are no visible catalysts, MIB disruption isn't gone yet, and the cyclical nature of the sleep industry may keep you up at night if you're worried about an inverting yield curve and impending recession.

Buyer beware.

Stay hungry. Stay Foolish.

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joefrenette