



Here's a Dividend Sleeper Pick for TFSA Income

Description

Making money while you sleep is an indescribable feeling that income investors are all too familiar with. With a TFSA, every penny of the income that flows back to you is untouchable by the tax man, and if you reinvest your dividends, the power of compounding, the third wonder of the world, has the opportunity to work its magic.

When going on the hunt for income stocks, it's essential to consider not just the price you'll pay, but the estimated magnitude of dividend [growth](#) you'll receive over the long term. As such, prudent income investing isn't just about chasing yield. It's a tough task that involves discovering the perfect blend of upfront yield, growth, safety, and value.

Sleep Country Canada (TSX:ZZZ) is an intriguing income stock that appears to have this perfect blend, but given the ridiculously negative trajectory over the past few years, does it make sense to pick up shares today?

Just a few years ago, Sleep Country was a roaring mattress retailer with an impressive growth runway. It was more of a growth stock than a name that'd be attractive to income investors. After tumbling over 55% from its high, however, the stock now has a 4% dividend yield and is starting to attract the attention of deep-value and income investors alike.

What was behind Sleep Country's nightmare fall?

Growth appears to be drying up, as demonstrated by the company's pathetic 3.9% in sales growth as the latest quarter. CFO Robert Masson is resigning and as disruptive mattress-in-a-box (MIB) retailers move further into Sleep Country's turf, the "sell-brick-and-mortar-retail" thesis looks to be dominating when it comes to the Canadian sleep giant.

Sleep Country isn't sleeping at the wheel though. The company isn't willing to watch its lunch money be stolen away by digital disruptors like Casper, Leesa, and the like. Sleep Country has doubled down on its MIB offering with its own Bloom line to go with its newly acquired Endy line of MIBs.

At this juncture, many investors are probably wondering if Sleep Country is on the trajectory of a Sears or Toys “R” Us. Despite the continued pressures placed on brick-and-mortar retailers, I don’t believe Sleep Country will be going to sleep permanently any time soon.

Why?

MIB is a disruptive force, but ordering a foam mattress in a box isn’t everybody’s cup of tea. Some folks still desire the Goldilocks experience of trying out a bunch of mattresses in person before making such a hefty purchase, even if there’s “no risk” involved with buying a MIB and its incredibly attractive return policies that are pretty much standard across all MIB vendors.

So, while MIB retailers have been a thorn in the side of Sleep Country, they’re much more benign in the grander scheme of things. The recent top-line growth slowdown, I believe, is primarily due to the slowing Canadian economy. Add the fact that Canadians are heavily indebted, and it’s not a mystery as to why big-ticket purchases like mattresses may have been postponed.

Such expensive equipment typically sells better when the economy is expanding, as consumers feel more confident. With some the recent monthly contraction to Canada’s GDP numbers, and a potential recession that could be on the horizon, I think Sleep Country’s biggest problem is, it’s a highly cyclical firm that’s feeling the pain from a lagging economy.

As the economy re-accelerates, I think Sleep Country is shaping up to be a solid bet for value and income investors alike. The stock trades at 9.9 times next year’s expected earnings and just 1.1 times sales. That’s ridiculously cheap for a retailer that I think is on the verge of waking up.

Foolish takeaway

While there are few (if any) meaningful catalysts on the horizon (other than a potential pick-up in the Canadian economy), I think the stock has become [too cheap](#) to ignore. The headwinds appear to be baked in to the stock and then some, so I’d buy the stock today and hang on for the juicy 4% dividend yield, which is more than safe.

Who knows? Sleep Country may hike its dividend further in spite of its hardships to bribe income-savvy investors.

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