



## This Undervalued Gem of a Retail Stock Is Just Too Cheap to Ignore

### Description

**Sleep Country Canada** ([TSX:ZZZ](#)) has come full circle and is now trading below its 2015 IPO price of \$17.

But since 2014, a lot has happened, and a lot of value was created by this company.

Revenue increased over 57% in this five-year period for a compound annual growth rate (CAGR) of 9.48%, the annual dividend paid to shareholders increased more than 42% for a CAGR of 7.31%, and cash flows have kept coming in strong.

So, what would you say if I told you that this is a [retail stock](#) that actually looks like it has a strong future ahead of it?

Would you be skeptical?

With Sleep Country Canada stock down almost 4% today at the time of writing after reporting weaker-than-expected results, I understand if you are.

So, this fall comes off the company's reported first-quarter 2019 results, which showed another quarter of same-store sales declines and lacklustre earnings.

Same-store sales were hit partly by increasing competition in the space, mainly online competition, and earnings were hit by increased spending on Sleep Country's own competitive positioning.

### What I like

Revenue and earnings trends notwithstanding, Sleep Country continues to churn out cash flow, with strong free cash flow generation in 2018 (\$41 million in 2018, or 6.5% of revenue) and again in the first quarter of 2019 (\$15 million, or 10% of revenue).

The company has taken steps to increase its online presence, with the acquisition of mattress-in-a-box

brands Endy and Bloom, its market share remains at over 20%, and this retailer's opportunity to capture additional sales and market share as a result of the Sears closure here in Canada remain good reasons to own the stock.

## What I don't like

Clearly, the biggest issue here is the company's same-store sales performance, which has been down in the last four or so quarters, placing into question the retail and competitive environment that Sleep Country is facing.

## Final thoughts

To recap, I would like to draw your attention to the fact that Sleep Country currently pays us a healthy, well-covered [dividend yield](#) of 4.44%.

I would also like to draw your attention to the fact that in 2018, the company generated \$623 million in revenue and in 2015, the company generated \$456 million in revenue.

This retailer is trading at a P/E ratio of nine times this year's expected earnings, two times book value, and operates in a segment of the retail environment that should be relatively stable and growing as Canada's population continues to grow and as Sleep Country captures sales that formerly went to Sears.

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