



## 2 Top Canadian Retailers to Buy Today

### Description

The furniture industry is one that has some stand-alone businesses, but for the most part it's dominated by large nationwide and international chains.

In Canada, some of the domestic furniture retailers have built themselves a strong position in their industry, capable of stable and consistent growth over the years, especially as the population continues to grow.

Two of the best Canadian furniture chains are **Sleep Country Canada Holdings Inc** ([TSX:ZZZ](#)) and **Leon's Furniture Ltd** ([TSX:LNF](#)), but which is the better buy today?

### Sleep Country

Sleep Country is a leading specialty retailer of mattresses and other sleep accessories in the Canadian marketplace.

The company has made some key acquisitions over the last few years to help improve its position in the industry. Its purchase of Endy, an online mattress supplier, at the end of 2018 has been huge for Sleep Country, giving the company another new avenue for distribution.

The new acquisitions have played a major role in helping Sleep Country grow its sales as well as its earnings before interest, taxes, depreciation and amortization (EBITDA).

Its EBITDA for the trailing 12 months has been roughly \$135 million, up roughly 175% since 2014, a compound annual growth rate (CAGR) of more than 20%.

While it may not grow as fast going forward (unless it makes another major acquisition that's successful), the stock hasn't kept up with the growth of the business, and it's currently well undervalued.

With the additional debt it's taken on, the company's grown its enterprise value (EV) over the last few

years, but not as much as its EBITDA, giving it a EV/EVITDA of just 8.75 times, well below its five-year average of 13.4 times.

Plus, the company only trades at 13.8 times earnings and pays a dividend that yields roughly 3.9% at a payout ratio of just 50%.

Sleep Country is a strong and well-run company that's growing, and will remain essential in the Canadian marketplace, especially as it's built itself such a dominant position and continues to find new paths to growth.

## Leon's

Leon's is Canada's largest furniture retailer with some of the best brands that have plenty of customer awareness. Because its acquisition of the Brick—its main competitor—in 2013, the company has been building and strengthening its position as the dominant Canadian furniture retailer.

The business has been growing consistently, with EBITDA growth from 2014 of 63%, or a CAGR of 10%. While not as fast as Sleep Country, it's still impressive growth.

What's really noticeable when looking at the numbers for Leon's is how constant the company is. For the last 10 years dating back to 2009, the company only had one year when its return on equity wasn't between 13% to 17%: in 2012 when it returned 10.7% on equity — still a very attractive return.

Looking at its stock today, the company is actually valued even cheaper than Sleep Country, with an EV/EBITDA ratio of just 6.4 times. The price to earnings ratio is also slightly below Sleep Country's at 12.5 times.

Leon's also pays a dividend as well, which is yielding roughly 3.5% and paying out less than 50% of its earnings, meaning the dividend is in good shape.

The company can be expected to continue to dominate the market and grow its business while returning capital to shareholders and offering an attractive valuation. All three factors combine to make it one of the top stocks to [add to your TFSA](#) today.

## The verdict

When it comes to which stock is the better buy today, if you are looking at it from a growth perspective, you may choose Sleep Country, but for value investors, it's clear the choice is Leon's.

While it's unlikely Sleep Country can continue to grow at 20% a year, its new acquisitions should give it plenty of strong growth potential.

Leon's, on the other hand, will continue to be consistent for investors, and because you can gain exposure today at an extremely attractive valuation, it's one of the best value stocks on the TSX.

## CATEGORY

1. Dividend Stocks

2. Investing

## **TICKERS GLOBAL**

1. TSX:LNF (Leon's Furniture Limited)
2. TSX:ZZZ (Sleep Country Canada)

## **PARTNER-FEEDS**

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## **Date**

2025/08/18

## **Date Created**

2020/02/04

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