A Top Canadian Stock to Buy Ahead of Earnings

Description

Sleep Country Canada Holdings (TSX:ZZZ) stock took a nasty 21% plunge off its 52-week highs hit back in late April. Undoubtedly, the mattress company was bound to take a snooze after its incredible rally off those March 2020 lows. But with discretionary spending likely to remain strong in the second half of 2021, guided by a continued reopening of the economy, the stock may be in a spot to wake up once again — perhaps fully rested and ready for its next march to higher levels.

Sweet dreams up ahead for the bruised Canadian stock?

It's hard to remember the last time the macro backdrop looked this good for the discretionary retailers of big-ticket, durable items. Indeed, consumer confidence needs to be at a high point for investors to make the most from discretionary stocks like Sleep Country. Typically, it's the early innings of an expansionary cycle where the greatest bargains to be had in the space become available for contrarian investors to scoop up.

Although shares of Sleep Country have more than tripled from last March's lows, I still think there's plenty of value to be had in shares, as the great reopening takes it to the next level.

Undoubtedly, a major concern of investors is whether new variants of COVID-19 will derail the economic recovery in its tracks. It's unlikely that COVID-19 will be eliminated anytime soon, even with the tremendous vaccine efforts. That said, I also don't think the recovery will end in a lockdown this fall or winter. Why? Fully vaccinated individuals are still well protected from new variants like Delta. And breakthrough cases have shown to be less devastating.

If there's no going back from the great economic recovery, which is now in full swing, it's the discretionary stocks like Sleep Country that still have plenty of room to run.

Sleep Country to pull the curtain on Q2 results next week

With second-quarter earnings on tap for August 3, I think the top Canadian stock could break its current funk. As such, I wouldn't be against buying the name going into earnings next week.

Undoubtedly, supply chain challenges have not spared the Canadian mattress retailer. But as supply/demand wrinkles are ironed out over time, I suspect any such issues revealed in the coming quarter ought to be viewed as temporary in nature. And any pressure it may cause on shares, I believe, may open up an even better buying opportunity in a name that could have far more to gain than the broader indices in a "Roaring '20s" kind of environment.

Going into earnings, Sleep Country stock looks ridiculously cheap. At the time of writing, shares trade at 15.5 times trailing earnings, 1.3 times sales, and 2.8 times book value. That's not a high price to pay for a firm that could have the tides turning in its favour over the next 18 months.

The risks of buying before earnings

Disruptions caused by COVID-19 still pose a major risk to shares. If re-openings begin to roll back, Sleep Country's brick-and-mortar stores could temporarily close again, giving a slight edge to the e-commerce sleep retailers like **Casper** or **Purple**, both of which have also been under considerable pressure in recent months.

While Sleep Country has a shippable mattress of their own (Endy and Bloom), physical retail, I believe, remains the company's greatest competitive strength. And as the great reopening continues, I think Sleep Country will really start to pick up traction.

In any case, I think the Canadian stock is shaping up to be a great buy ahead of earnings, while shares are fresh off a vicious selloff.

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