
# Which Is the Better Buy: Canada Goose Holdings Inc. or Gildan Activewear Inc.?

## Description

The Canadian retail industry is not an attractive investment option these days, as it has seen many big brands perish over the years. Clothing manufacturers, however, have the flexibility to sell their products over the internet and aren't subject to the same risks that brick-and-mortar stores face. For this reason, I'm going to have a look at two big clothing manufacturers today to see which one might be a better buy.



**Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) produces high-end apparel with parkas that you can find priced at over $1,000; even winter clothing for kids can reach over $700. What sets the company apart is its domestic production and focus on craftsmanship and attention to detail. It's an admirable attempt to focus on quality and keep jobs in Canada, but whether consumers are ready to pay such high premiums for clothing at a time when housing and other costs are rising remains to be seen.

However, Canada Goose has shown that so far the company's approach has worked, as sales of $218 million in 2015 almost doubled in as little as two years. In three years, Canada Goose's top line has grown a total of 165%, and its latest quarter shows no signs of slowing down with year-over-year revenues rising 80%.

**Gildan Activewear Inc.** (TSX:GIL)(NYSE:GIL) is at the other end of the spectrum when it comes to manufacturing and has operations around the world, and even the products by the American Apparel brand, which previously were only made in the U.S., will no longer have that distinction. The other difference between the companies is that Gildan focuses more on t-shirts, undergarments, and overall much lighter clothing than Canada Goose's heavier clothing which is designed for colder weather.

Gildan has not seen the explosive sales growth that Canada Goose has, but with six times more revenue, it is also harder to grow sales that have been over $2 billion in each of the past four years. In its last fiscal year, Gildan's sales dropped 12%, but in three years, the company has seen its top line increase by 18%.

**Gildan's profits have been stronger**

In its last two quarters, Canada Goose has been in the red, and over the past three years, the company has averaged a profit margin of just less than 7%. In contrast, the cost-focused operations of Gildan have seen the company average a 14% profit margin over the past five quarters, and it has produced similar results over the past four years.

**A look at valuations**

Canada Goose's earnings per share in the past 12 months have totaled just $0.22, meaning the stock trades at almost 120 times its earnings and is far less than the 24 times earnings that Gildan trades at.

**Which is the better buy today?**

If investing in domestic operations is important to you, then Canada Goose certainly would be the winner without much further analysis. However, given that Canada Goose is now publicly traded, it will be interesting to see if shareholders put more pressure on the company to drive down its costs and potentially look at most cost-effective production options, including manufacturing its products abroad.

If we are looking at long-term sales and profit growth, then Gildan would look to be the better choice today. Although Canada Goose has done a great job of growing its top line, its focus on winter wear will ultimately limit the number of markets it will be able to succeed in.



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**Date**
2025/08/24
**Date Created**

2017/10/22

**Author**

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