Canada Goose Holdings Inc. vs. Roots Corp.: Which Is the Better Buy?

Description

As the Christmas holiday fast approaches, and the shopping frenzy is getting under way, which stocks will be the best performers?

Let's look at two very lucrative companies and brands in an effort to determine what investors should buy ahead of Christmas.

IPO and stock price performance

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS), the 60-year-old $3.7 billion apparel retailer, has certainly had a great run. The stock IPO'd at $17 a share, quickly proceeded to rise, and is currently trading at over $34.

In fact, that shares were hot right out of the gate and posted a 26% return on the first day of trading.

And the rest is history. With its luxury parkas and coats that generate strong profit margins and returns for the company and its shareholders, the company has been a favourite from that day forward.

Roots Corp. (TSX:ROOT) was not so lucky. The $477 million company set its stock's IPO price at $12, and after losing 17% in its first day of trading, the stock now trades at just over $10.

I think the difference in the company's performance was partly due to timing of the IPOs.

Let's fast forward to today and look at where each company stands.

Canada Goose's most recent quarter, the second quarter of fiscal 2018, was a strong one, with revenue increasing 34.7% and the gross margin increasing to 50.5% from 46.4%, as direct to consumer revenue increased fourfold, with the North American e-commerce business showing clear strength.

With over 40 years in existence, Roots has a powerful brand that is known for its quality and style. In the last three years, the company has grown its revenue at a CAGR of 14%, and the company's gross margin is higher than Canada Goose's at 55%.

Both companies are investing in their e-commerce business, which is increasingly essential for the retail landscape these days and will continue to drive earnings and sales growth going forward.

Faced with two iconic brands that have good growth ahead of them, it appears that investors have a hard choice.

Roots trades at a P/E multiple of 18 times this year's EPS, with an estimated earnings growth rate of 14%, and Canada Goose trades at a P/E multiple of 59 times this year's estimated EPS, with an estimated earnings-growth rate of 26%.

We should note that in the latest quarter, Canada Goose exceeded expectations, which is always a very good sign for the stock price.

While household debt is at record levels, and interest rates have been on the way up, thereby reducing disposable income for most consumers, it is the consistent performers that have a clear online strategy that will be the top picks.

At this time, I would choose Roots over Canada Goose, partly because of valuation, partly because of the steep cost of Canada Goose parkas, which will become more of a problem if consumers have less disposable income as rates rise, and lastly because of potential problems that may arise given PETA's vocal opposition to Canada Goose using goose and duck feathers and coyote fur in its apparel.

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