Are Roots Corp. and Canada Goose Holdings Inc. Worth a Look in March?

Description

Retail trade fell 0.9% in December 2017, as holiday shopping numbers failed to impress compared to the solid numbers reported in the United States. Activity at clothing and clothing accessories stores was down 3.6% over the course of the month. However, November showed very high activity due to the performance of stores during Black Friday and Cyber Monday.

Today, we are going to look at two clothing companies that are entering the slow season in spring and summer. Should you go with either stock right now?

Roots Corp. (TSX:ROOT)

Roots is a Toronto-based apparel brand that was founded in 1973. Roots is one of the most recognizable and iconic Canadian clothing brands in the world. Its stock has dropped 0.35% in 2018 as of close on March 5. Shares of Roots are down 6% from its initial public offering (IPO) price of $12. The company released its 2017 third-quarter results on December 5.

In the third quarter, total sales climbed 13% to $89.7 million, and the company reported comparable sales growth of 10.1%. Adjusted EBITDA also jumped 20.5% year over year to $16.3 million. Roots has opened four net new corporate retail stores since the end of the third quarter of 2016 and 11 new stores in Asia, as it continues to expand its international footprint. The company also reported improvement in its e-commerce business segment.

Up to the end of fiscal 2019 Roots projects compound annual growth (CAGR) of 13-17% from 2016 to 2019. It also expects double-digit CAGR in adjusted EBITDA and adjusted net income.

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS)

Canada Goose is a Toronto-based outwear manufacturer and retailer. Canada Goose stock has climbed 5.9% in 2018 thus far and is nearing the one-year anniversary of its IPO. Shares of Canada Goose have soared over 140% from its IPO price of $17. The company released its third-quarter results on February 8.

In the third quarter, revenue surged 27.2% year over year to $265.8 million. Direct-to-consumer revenue almost doubled from to $131.6 million compared to $72 million in the prior year. Canada Goose has ambitions to report more than half of its future sales through its e-commerce business to boost profitability. Its wholesale revenue dipped slightly to $134.2 million compared to $137 million in Q3 fiscal 2017.

Adjusted EBITDA rose 43.2% to $94.7 million. In spite of its impressive results, Canada Goose stock was battered in the aftermath, as gains appeared to be priced in, and investor sentiment appeared to dip, as the company committed to its course of maintaining its tight supply. Shares rebounded in the days following the dip, but investors should be cautious as we enter the slow season.

Which stock should you buy?

Roots and Canada Goose are a risky bet in what could be a slower spring season that could present a greater strain on consumers in the form of higher interest rates. Investors should look elsewhere for growth right now.

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