Better Buy: Dollarama Inc. vs. Canada Goose Holdings Inc.

Description

Consumer spending and the very robust real estate market have been drivers of economic growth in Canada, with industries such as the retail industry reaping the rewards.

And while certain retailers have actually gone under in this very robust environment, it was due to structural changes, such as the changing consumer and consumer demands, and the continued shift away from traditional retailers toward those that have a strong online presence.

The following two retailers have thrived, but which one is a better buy at this point?

Dollarama Inc. (TSX:DOL)

Dollarama has built a solid moat around itself, with over 1,000 stores across Canada and a leading market share position by a great stretch.

The company has used its superior merchandising skills to increase revenues profitably and has funded the growth in its store base with relatively small levels of capital.

It has diversification in that it sells a wide variety of products for shoppers' everyday needs.

Since 2014, the company has grown its revenue by a compound annual growth rate (CAGR) of 12.3%, and its EPS by a CAGR of 27%.

The company provides investors with a growth story that is defensive in nature due to the price points of its merchandise, and that makes it relatively insensitive to difficult economic times.

Let's switch gears now and take a look at **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS), a very different retailer in many respects. The company sells premium-priced parkas, outerwear, and accessories. It lacks diversification in its products.

The company appears to be very cyclical and subject to fads and the latest style craze, which cancome out of fashion just as quickly as it went in fashion.

And while Canada Goose's financial performance has been impressive, with leading margins and returns, if the consumer is heading for more difficult times, which I think is the case, then this retailer will be very negatively affected.

The one thing that these two retailers have in common is the fact that both of their stocks are premium priced.

Dollarama trades at a price-to-earnings (P/E) multiple of 33 times this year's expected EPS and 29 times next year's expected EPS, which is expected to grow by 15%.

Canada Goose trades at a P/E of 60 times this year's expected earnings and 48 times next year's expected EPS, which is expected to grow by 26%.

While Canada Goose is growing its earnings faster, Dollarama's valuation is supported by its strong position in the industry and its ability to continue to grow with relatively predictable results, given its track record.

Canada Goose presents with far greater risk.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:DOL (Dollarama Inc.)
3. TSX:GOOS (Canada Goose)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/26
Date Created
2018/03/09
Author
karenjennifer