Better Buy: Roots Corp. vs. Canada Goose Holdings Inc.

Description

It's been awhile since I've have taken a look at **Roots Corp.** (TSX:ROOT) However, on March 15, I couldn't help myself.

After dropping more than 5% with only an hour left in the day's trading — it opened at $11.20 and moved steadily downhill throughout the day, hitting an intraday low of $10.38 around 3:00 p.m. — I wondered if its stock was moving into the buy-on-the-dip territory.

When it comes to recent retail IPOs, there's only one darling of the ball, and that's **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS), but given it trades at something like 27 times adjusted EBITDA, Roots is certainly an option most investors ought to consider.

But is Roots a better buy than Canada Goose?

I thought I'd go to several of my Fool.ca colleagues for a little input. Once done gaining their insight, I'll give you *my* two cents worth.

On March 9, Ambrose O'Callaghan thought both stocks were best avoided: "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," O'Callaghan wrote. "Investors should look elsewhere for growth right now."

Okay, one vote for neither.

Karen Thomas took a look at Canada Goose and **Dollarama Inc.** (TSX:DOL) on the very same day. She came away convinced that Dollarama provided Foolish investors with better risk-adjusted returns.

That's two votes against Canada Goose.

Finally, on March 10, David Jagielski weighed in on Canada Goose. He came to the conclusion that Canada Goose stock was just too darn expensive and does not make a good buy at current prices.

Perhaps my three colleagues have a good point.

Canada's economy grew by 3% in 2017. The OECD expects that growth to slow to 2.2% in 2018 and 2% in 2019. If a trade war kicks in, those numbers could be adjusted downward, putting retailers in a tough position.

It's something to dwell on, for sure.

My thoughts on both stocks

First of all, Jagielski is right about Canada Goose. Trading at 27 times adjusted EBITDA, it's got to execute to perfection for its stock to remain in the $40s.

Going public in March 2017 at $17 a share, it officially doubled in price last November; it hasn't dropped below $34 in the four months since. Any sign of weakness when it reports Q4 2018 results sometime in late April or early May will definitely send it into the $30s.

That's a good news/bad news type of situation, because while you'll be able to buy Canada Goose for less, it also means its business is losing momentum — never a good thing for a growth stock.

Personally, I don't see that happening, as its direct-to-consumer (DTC) business continues to grow by 20% or more in all three geographic areas where it operates, while operating margins in both wholesale and DTC are still growing.

It's expensive for sure, but sometimes quality costs more.

As for Roots, it's a little tougher to assess given it's only had one quarterly report under its belt since it went public at $12 a share in October. Roots generated approximately 41% of its annual revenue in the fourth quarter, so when it reports on March 20, all eyes will be glued to same-store sales, which were up 10.1% in the third quarter.

Given Christmas sales were generally good this year, I'd be surprised if it didn't report good growth.

Which is the better buy?

If you're looking for value, Roots is the better buy. However, there's no question that in five years, Canada Goose is going to be a much larger business than Roots could ever be.

That's not a knock against Roots so much as a compliment to Canada Goose. If you don't mind nosebleed valuations, Goose should make you decent money over the next three to five years.

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