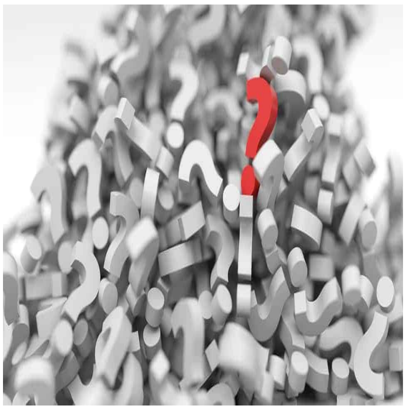

Is Roots Corp. the Best Clothing Stock on the TSX?

Description

Roots Corp. (TSX:ROOT) recently reported its Q4 earnings and wrapped up its fiscal year on a strong note. The company has seen its revenues soar more than 15% in the past year, while profits of $17 million more than doubled during that time as well. The clothing company only started trading in October, and its stock has already risen more than 27% since then.

However, with many great clothing stocks on the TSX, it may not even be the best one to invest in, despite the success it has already achieved. Both **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) and **Gildan Activewear Inc.** (TSX:GIL)(NYSE:GIL) provide great options for investors, and it's worth looking at all three before deciding where to put your money.

Different strategies

Gildan is the most established brand of the three and has operations in many parts of the world. Its low-cost strategy doesn't leave much room for profit, as after cost of goods sold, the company has a gross margin of less than 30%. However, Gildan has still been able to turn a profit in each of the past five years, and last year 13% of its top line flowed through to earnings.

The company's model makes it easy for Gildan to grow, and its acquisition of American Apparel last year will only give it more avenues to increase sales and profits.

Canada Goose is still in its early growth stages, and the company is at the other end of the spectrum. With a focus on craftsmanship and quality, the company prides itself on providing top-tier clothing to its customers. While the business may be very seasonal, it has paid off thus far. The company had a strong first year on the TSX, and its share price has more than doubled since being listed.

Its strong 57% gross margins have helped Canada Goose achieve a profit margin of 13% over the past four quarters.

Roots is also not a discount brand, and while it may not be as pricey as the parkas sold by Canada Goose, its markups have enabled the company to earn a gross margin of over 56% during the past year. However, profits have been just a modest 6% of sales.

A value look

While all three companies have shown signs of success in deploying their respective strategies, let's take a look at how well priced their share prices are.

Canada Goose's stock, much like its clothing, trades at a big premium. Currently, the share price is valued at more than 34 times its book value, and its price-to-earnings (P/E) ratio is nearly 80.

Roots trades at a more modest 2.7 times its book value, and the share price is roughly 31 times the earnings that the company achieved in the past 12 months.

Gildan's stock is priced at a little more than three times its book value, and with a P/E ratio of 23, it offers investors more for their investment dollars.

Bottom line

Depending on which business model you prefer, you could have a much different preference for which stock to invest in. However, for investors looking for value and growth, it's clear that Gildan is the better buy.

Both Canada Goose and Roots have benefited from a lot of hype and fanfare from being listed on the TSX recently, and that has shot their values up, but Gildan offers investors with more long-term stability and is a better value buy today.

CATEGORY

1. Investing

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1. NYSE:GIL (Gildan Activewear Inc.)
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3. TSX:GIL (Gildan Activewear Inc.)
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