Canada Goose Holdings Inc. (TSX:GOOS) vs. Dollarama Inc. (TSX:DOL): Which Is the Better Buy?

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) has been one of the top-performing stocks on the TSX this year, with its share price doubling year to date. Since listing on the TSX last year, the stock has soared by more than 260%. Despite rising interest rates and record debt levels for consumers in this country, we haven't seen Canada Goose struggle to sell its high-end apparel to customers.

At the other end of the spectrum, low-price retailer **Dollarama Inc.** (TSX:DOL) has actually been down year to date, and that's a big reversal in fortune from the strong year that the company had in 2017, when its share price rose by 60%.

The two companies are polar opposites, and that makes the stocks an interesting comparison. Let's take a closer look to see which one might be a better buy today.

Valuation

Canada Goose's rapid ascent in price has made the stock very expensive to buy.

Currently, the share price is valued at nearly 100 times its earnings, which is well above industry averages and the 33 times earnings that Dollarama trades at. Canada Goose also trades at an astronomical 36 times its book value, and although it may have an advantage over Dollarama, since it has positive equity, its premium rivals what investors are paying for marijuana stocks, which is out of this world.

Dollarama is clearly the better value buy, but only because Canada Goose has grown so quickly in price.

Growth prospects

I suspected that Canada Goose might have a strong quarter given that the recent winter was a bit harsh, even by Canadian standards, and indeed, Canada Goose's sales were more than double last year’s tally. The company has continued to show excellent growth, and with plans to expand into China, the sky could be the limit for its cold-weather apparel.

Dollarama has continued to grow as well, but it simply hasn’t been at the same pace as Canada Goose. Last quarter, Dollarama’s sales were up a modest 7%, while profits increased by a similar amount. However, there could be growing demand for Dollarama’s stores, as pocketbooks get a bit tighter amid rising interest rates, and as consumers look for any way to save a dollar.

In terms of growth, Canada Goose has a big edge here, particularly since online sales play a big role for the company, which can make it much easier to reach more consumers than a brick-and-mortar store can.

Risks

The big concern for Canada Goose is how it will handle expansion into a new market in China and whether it will see a rise in knockoff products, which could threaten its long-term growth.

For Dollarama, rising minimum wages will put pressure on the company’s bottom line, as it will add a lot of costs to the company’s operations.

Overall

Dollarama is my pick between these two stocks, mainly because I can see a path for the company to have an uptick in demand.

While it is tempting to think that Canada Goose will continue to grow its current pace, it’s just not reasonable to expect it. The company has done well, but sooner or later, we’ll see a bit more resistance from consumers, as I expect that affordability could become a big hurdle that prevents Canada Goose from achieving the long-term growth it needs to justify its high price.

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