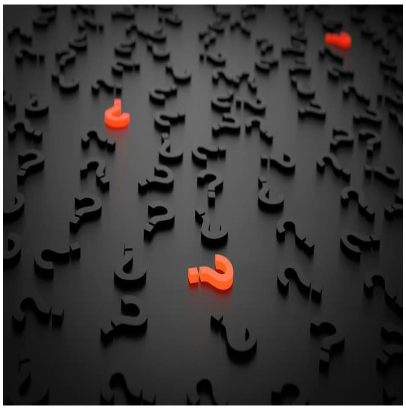

Canada Goose Holdings Inc. (TSX:GOOS) vs. Roots Corp. (TSX:ROOT): Which Has the Most Upside?

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) and **Roots Corp.** (TSX:ROOT) are two top Canadian apparel stocks with the potential to pop over the next few years, but which one is the better bet at current levels?

At this point, the Goose versus Roots battle is a classic momentum versus contrarian scenario. If you're a pure momentum or value investor at heart, then you've likely already made your decision as to which stock you should be buying today.

I'm a value investor. When it comes to high-growth stocks, I've missed out on a great deal of upside by taking profits off the table prematurely. A lot of the time, high-flying names will continue to soar well after you trim (or sell) your stake after you deem a stock's valuation as "too frothy."

While there's certainly nothing wrong with profit taking, sometimes it's just better to just let your winners keep on winning even though it may be contrary to a contrarian strategy!

Simply put, it's important for investors to realize that when it comes to value and growth stocks, you're dealing with two completely different beasts that should be handled differently.

Sometimes you ought to let your growth stocks run. Or in this case, allow your Goose to keep flying.

Without further ado, let's compare Canada Goose and Roots to see which has the more favourable risk/reward trade-off.

Canada Goose

Canada Goose just clocked in a quarter for the ages.

While it may seem like you've missed a historic rally, I believe the company's high-margin growth story is still in its infancy, especially when you consider the profound growth potential behind the imminent expansion into China. Canada Goose branded parkas (and other wears) are hot commodities in China even though the climate is quite warm for most of the year.

Many Canada Goose fans would go to extreme lengths to show their love of the brand. Here in Vancouver, I've seen a couple of folks dawning Canada Goose down parkas in the late spring, when the temperature was hovering around 15 degrees Celsius. I didn't think a piece of outerwear designed for Arctic expeditions would be worn in the mild (even warm) temperate rainforest climate, but boy, was I wrong! This shows how profoundly powerful Canada Goose's brand has become. With a line of spring wear now available, I think the Goose is about to migrate much further south.

The stock trades at around 15 times sales and 70 times cash flow, which is absurd, I admit, but I think the stock is still a buy despite the out-of-this-world multiple. The growth prospects and the incredibly intelligent management team with Dani Reiss at the helm are well worth the premium price tag.

Roots

Roots recently clocked in underwhelming quarterly results and appears to be falling back to the single-digits. Although the stock may seem like a dud, I believe the stock is trading at a bargain-basement price when you consider the many medium to long-term catalysts that could propel the stock out of its funk. The promising foray into the U.S., the continually improving direct-to-consumer (DTC) channel and the expansion of footwear are all efforts that should excite investors.

Investors aren't hyped, however, which is thanks in part to incredibly weak sales numbers from the most recent quarter.

One could argue that the last quarter was a seasonally weak period, but that excuse doesn't hold up anymore — not after Canada Goose delivered that blowout quarter in spite of the seasonally weak period. Canada Goose sells winter wear after all, so it doesn't get more seasonal than that.

As we head into a stronger seasonal quarter, I think Roots could deliver an upside surprise, as that bar has been set low. The company pales in comparison to the likes of Canada Goose, but on the valuation front, Roots looks like an absolute steal at just 1.4 times sales and 17.4 times cash flow.

Better buy?

You can't go wrong with either name, but if I had to choose one, I'd go with Roots because valuation metrics and expectations going forward are low — too low.

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Date
2025/08/24
Date Created
2018/07/14
Author
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