Could This Top Growth Company Lift Your Portfolio to Greater Heights?

Description

With Canada's fashion industry developing over time, it is nice to finally have a choice of investment purchases. For the longest time, Lululemon Athletica Inc. was probably the most well-known Canadian publicly-traded fashion brand.

The company enjoyed enormous success over time and is considered one of the pioneers of athletic wear. More recently other Canadian clothing brands, namely **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) and **Roots Corp.** (TSX:ROOT), have been publicly listed, adding to investor choice.

As Lululemon is no longer listed on a stock exchange in Canada, it has really come down to Canada Goose and Roots for Canadian investment choices. And of the two, Canada Goose appears to be a better choice than Roots from a growth perspective.

Canada Goose is an interesting potential growth investment choice. The success of this brand has definitely flowed through to the company's financials. Canada Goose has a strong balance sheet for a retailer, with almost as much cash as debt.

Its revenues have been growing quite strongly over the past few years for the most part, as have its earnings. DFIt also has positive free cash flow, quite remarkable for a relatively new company.

The first-quarter results were quite good, with revenues increasing by 58.5% over the previous year. Most important, revenue has been growing double-digits in all the regions in which the company sells its products, providing a solid growth outlook for the company.

The company did report a net loss of ($0.16) a share for the quarter. As summer isn't exactly the height of the business cycle for a company that specializes in jackets and winter wear, it might be worth waiting for the next quarter to get a better idea of its profitability.

As with any growth stock, there are risks. The biggest issues with the company come from the marketit serves. The fact is that its profitability hinges on largely on its popularity. As long as the brand is desirable, it will most likely make money. The problem is that tastes can change rapidly.

And when they do, the financial impact on these brand-name companies with high valuations can be devastating. The market is already pricing in a significant amount of growth as Canada Goose is trading at over 90 times earnings. If sentiment were to change, the stock could retreat rapidly.

The stock has a couple of other issues as well. It has no dividend to support the stock price — a major negative for many investors. It also sells primarily seasonal merchandise that is not necessarily appropriate for every country, limiting its potential market. Canada Goose is expanding its product offerings, but its main revenue source is tied to the winter season.

If you want to invest in a Canadian growth company, this could be one to choose. Its balance sheet and growth profile are intact, so there could be money to be made. But this is a high-risk, high-valuation stock that could turn on you quickly if the company were to report a bad quarter or if growth stocks fell out of favour. If you are a conservative investor, it would probably be wise to look elsewhere.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)
3. TSX:ROOT (Roots Corporation)

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