Lululemon Athletica (TSX:LLL) vs Canada Goose Holdings (TSX:GOOS): Which Is the Better 2019 Pick?

Description

Lululemon Athletica (TSX:LLL)(NASDAQ:LULU) and **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS) are two of Canada's fastest-growing clothing companies. Both are popular with younger, affluent customers. Both are growing earnings by leaps and bounds. And most important, both are way up in the markets this year.

Canada Goose and Lululemon both had great years in 2018 due to the popularity of their core product offerings. But for those looking to invest now, the question is, which one is better positioned for 2019? To answer that question, we need to look at how each of these companies is growing.

Phenomenal growth

Both Canada Goose and Lululemon are growing quickly. In Canada Goose's case, revenue is up 33% and earnings are up 35%. Pretty impressive. But that's nothing: in Lululemon's most recent quarter, revenue was up 24% and earnings were up 96%. On the growth front, I give Lululemon the edge. But what about valuation?

Valuation

After learning that earnings are growing much faster at Lululemon than at Canada Goose, you'd expect the former stock to be the more expensive. But actually it's the opposite: Lululemon has a trailing P/E ratio of 54 and a price-to-book ratio of 14, while Canada Goose has a trailing P/E ratio of 100 and a price-to-book ratio of 35.

Finally, Lululemon has the lower PEG ratio, at a comfortable 1.62. So once again, Lululemon appears to be the winner. But what about the businesses that actually drive these numbers? Could there be something going on under the hood that explains Canada Goose's higher valuation?

Market share

Market share is one area in which Canada Goose seems to have Lululemon beat. Whereas Canada

Goose has a virtual monopoly on luxury parkas in the $1000 price range, Lululemon has just 1.71% of the athletic wear market. It's in this area that Canada Goose really shines. The company is so dominannt in its niche that it's hard to imagine it being otherwise.

The Canada Goose name is nearly synonymous with luxury parkas. This is the kind of mind share that the iPod had in the early days of the MP3 player market, which made it extremely difficult for other companies to gain any market share in the industry. This creates what Warren Buffett calls a "moat," a market factor that protects the market leader from competition. And stocks with moats are usually good investments.

Trendy brands

One final thing bears mentioning about Lululemon and Canada Goose: these stocks are both very 'trendy' and thus subject to changing tastes.

For Canada Goose, in particular, this could be an issue, because the company makes 90% of its revenue off one flavour of the week product category. If luxury parkas in general fall out of favour, then we could see a cheapening of the Canada Goose brand, as happened with **Burberry** after it fell out of favour with the wealthier customers.

Lululemon is a trendy brand as well, but because it's operating in a wider and more established product category, I see it as slightly less susceptible to the whims of taste than Canada Goose. For this and the other reasons mentioned in this article, I favour Lululemon over Canada Goose for 2019.

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