Which Canadian Luxury Retail Stock Is a Stronger Buy Right Now?

Description

One of Canada's strongest brands — and one of the TSX index's strongest stocks — today, **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) is still only a moderate buy if you go through the data. Looking past a one-year past earnings growth of 151.5% that smashed its own five-year average of 54.1%, let's go through the rest of the numbers and see what we come up with.

Can this stock soar again?

With a PEG of 2.1 times and debt 93.7% of net worth, we immediately have two pieces of data that count this stock out for value investors and the risk averse. Insiders have only sold shares in Canada Goose Holdings over the last three months, which does not bode well for general confidence in a 33.2% expected annual growth in earnings. Indeed, after its December plummet, it's hard to believe that a significant recovery in the share price lies ahead.

In terms of value, the TSX index can offer much better: a P/E ratio of 69.9 times earnings and P/B ratio of 25.8 times book show that this is a rather overpriced stock at the moment, and with no dividends on offer, it's not a pick for the passive-income investor. It fares better in terms of quality, though, with a past-year ROE of 36% and last-quarter EPS of $0.94.

Momentum investors in the TSX index may want to go through the share price trend data, but in short Canada Goose Holdings has some way to go before it recovers fully. It gained 3.46% in the last five days, which is a start, and its share price is overvalued by double its future cash flow value; however, its beta of 0.71 relative to the North American luxury goods industry indicates low volatility.

Should investors switch to a competitor?

Compare the data for that of **Roots** (TSX:ROOT). Up 7.4% in the last five days, Roots is on a tear. Is it too late to jump on the bandwagon and grab some upside? Probably not, and with a few tasty valuation ratios out there, it might not be such a bad idea: check out a P/E of 10.9 times earnings and perfect P/B of 0.8 times book. One of the best valued of the TSX index "it crowd" of luxury stocks, Roots’s share price is discounted by 33% compared to its future cash flow value.

A 13.1% expected annual growth in earnings paired with a five-year beta of 0.97 relative to the industry, indicating middling volatility, make for a fairly safe bet for mid-term investing. With no dividends on offer, and a so-so balance sheet that carries 68% debt relative to net worth, Roots is one to hold purely for capital gains; watching and timing the market therefore need to be part of a buyer’s skill set.

The bottom line

Comparing Canada Goose Holdings with Roots has become a fairly common game to play for stock market observers and those directly invested in these companies. It makes little sense to be invested in both, since this leads to over-exposure, but stacking shares in one of the companies seems a strong play if you happen to be bullish on Canadian retail. If this is the case, Roots is looking like the stronger play at the moment.

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