Should You Buy Canada Goose Holdings Inc (TSX:GOOS) or Gildan Activewear Inc (TSX:GIL) Stock?

Description

Gildan Activewear Inc (TSX:GIL)(NYSE:GIL) or **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS)? That is the question.

Both fashion apparel stocks have done well in recent years, but one company stands out.

Since 2017, shares of Gildan are up by 35.5%, easily outpacing the TSX average return of around 0%. Over the same period, however, Canada Goose stock is up an impressive 222.5%.

While recent history points to Canada Goose, it's possible that shares have gotten a bit too far ahead of itself. Currently, Canada Goose stock trades at a price to earnings multiple of 53 times. By comparison, Gildan trades at just 21 times earnings.

Based on their current valuation and growth prospects, which stock is a better deal today?

Canada Goose is red hot

The lofty valuation of Canada Goose stock is well deserved. Last year, it grew revenues by 50%. Net income popped by 64% while cash levels grew by 64%. There isn't a single metric that suggests any sort of weakness—it's simply one of the best-performing businesses in Canada today.

Gildan, while relatively tame, is also delivering impressive fundamentals. Last year, sales grew by 13.6%, with profits increasing by 8.4%.

What's the better bargain stock these days? Value investors might be wary of Canada Goose trading at 53 times earnings, but I'd argue that its current valuation is a steal given the state of the business.

Over the next five years, analysts expect Gildan to grow earnings by an average of 10.1%. Canada Goose, meanwhile, has an expected annual growth rate of 28.6%. If those growth rates become a reality, Canada Goose is the clear value here.

Is a 28.6% annual growth rate feasible? Absolutely.

This stock won’t slow down

While Canada Goose stock has fallen by nearly 10% over the past six months, I suspect this is just the market taking a breather after a spectacular run. Since its IPO in 2017, shares have roughly tripled, even including the recent dip.

Judging by the fundamentals, Canada Goose still warrants a premium valuation. Last year, revenues jumped by 46%, with EBITDA margins expanding from 20% to 25%. Higher sales and profitability pushed earnings per share to $0.84, a 100% increase from the year before.

More important, Canada Goose has created a world-class brand with heavy repeat purchase behaviour. For example, 84% of Canada Goose customers indicate that they will return to the brand for their next premium outerwear purchase. That type of data is indicative of a top-level brand, where customers continually spend thousands of dollars over the rest of their lives on the company’s products.

Branding can be tricky, but Canada Goose has stuck the landing.

How much upside is there?

Now trading near the same valuation as the TSX index, Gildan is simply a bet on whether it can outpace market growth. Canada Goose, meanwhile, has the potential to double or triple again over the coming years.

In 2019, the company is expected to earn roughly $1.30 per share, meaning that the stock currently trades at 52.3 times forward earnings. If the company can achieve a 28% annual earnings growth rate, EPS could hit $4.50 in just five years. Even at a more reasonable (but still premium) valuation of 30 times earnings, shares would be worth between $130 and $140 apiece.

Canada Goose’s outrageous growth phase is over, but buy-and-hold investors still have plenty of room to capitalize.

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