The Battle of Clothing Stocks: Lululemon Athletica (NASDAQ:LULU) vs. Canada Goose (TSX:GOOS)

Description

Recently, premium clothing brands have been among the best-performing Canadian stocks, with **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) and **Lululemon Athletica** (NASDAQ:LULU) up 51% and 81% over a 12 year period, respectively.

The significance of these numbers can't be overstated. In the same 12-month period just mentioned, the **S&P/TSX Composite Index** gained a mere 6%, while growth superstar **Shopify** gained 74%–lagging behind Lululemon.

It's clear that premium clothing vendors are doing well right now. In Canada, however, there's only room for one. And with exactly two major players in the high-growth segment of the market, the stage has been set for a showdown between Lululemon and Canada Goose.

Of course, there's always the option of diversifying by buying both of the Canadian clothing giants. But if you want the absolute best return, it pays to know which of the two has the better future ahead of it. We can start by looking at Lululemon's recent earnings news.

Lululemon's massive earnings beat

Lululemon has been growing earnings at high double digits for years, driven by insatiable consumer demand for its athleisure products. In Q4, the company's revenue grew by 26% and earnings by 38% year-over-year. The company has had better quarters than this in the past. However, given that the company had cut its Q4 outlook in its Q3 report and still managed to pull off a beat, it was still a monumental achievement

Canada Goose's China connection

In its most recent quarter, Canada Goose grew even faster than Lululemon, increasing its net income by 61% year-over-year. Assuming the company can keep up that kind of growth, it may be an even better buy than LULU.

However, Canada Goose has a potential problem on its hands. The company depends heavily on China for its sales growth, and diplomatic relations between China and Canada have been tense lately, with Huawei's Meng Wanzhou being detained in Vancouver over alleged fraud charges.

This all stems from a dispute between China and the U.S., but Canada has been caught in the cross hairs, and certain Chinese figures have been calling for boycotts of Canadian products. Should mass boycotts materialize, they'll put a damper on Canada Goose's sales in one of its most important markets.

Price and fundamentals

In terms of price, both Canada Goose and Lululemon are fairly expensive. Canada Goose currently trades at 50 times trailing earnings and 18 times book value, while Lululemon trades at 45 times trailing earnings and 15 times book value. These are high valuations, but these are fast-growing stocks.

If we look at price against projected future earnings, both of them become quite a bit cheaper, and they both have PEG ratios lower than two. Assuming that these stocks can keep up the heady earnings growth, they'll both be good buys.

However, Lululemon looks like a safer bet at the moment, as it's not vulnerable to geopolitical problems that are beyond its control.

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