Better Buy: Canada Goose Holdings (TSX:GOOS), Roots (TSX:ROOT), or Dollarama (TSX:DOL)?

Description

Canada's retail environment remains exciting today but also challenging, leaving us with the difficult decision of which retail stock to own, if we want to own one at all. While it is clear that investors have made good money owning retail stocks in the last few years, are the money-making days behind us, at least for now? Is the cycle turning?

For the answers to these questions, I would like to direct you to Canada's consumer:

– Canada's ratio of debt to income hit a high of 176%, as household debt continues to climb higher.
– Delinquency rates in Canada are rising.
– The unemployment rate remains low and wages are rising.

We can see from this data two opposing forces. On the one hand, debt levels keep rising to record highs and delinquencies are creeping higher, but on the other hand, unemployment is at lows not seen since the 1970s.

What should investors do with this information? How should we read it, and what conclusions should we make?

While there is good news and bad news in these numbers, I think that the bottom line is that the consumer is tapping out in terms of spending and debt. At the very least, I think consumer spending will rise more slowly than in recent years, as consumers attempt to rein in their debt levels.

So, with this, where should we turn if we want to add retail stocks to our portfolios?

Roots

Over at **Roots** (TSX:ROOT), we continue to see problems, as this Canadian retailer continues to disappoint, sending the stock lower yet again. At the time of writing, and after its first-quarter results announcement, Roots stock is trading at $3.19, down 1.54% for the day and down a shocking 73%

from its IPO price of $12.

While the company is saying that it remains on track to meet 2019 targets, investors are shaken by the massive failure of this company since its IPO. It goes to show the erratic nature of specialty retailers that are at the mercy of consumer tastes, slowing sales growth, and rising costs.

Although the stock looks cheap, I would still not touch it at this point.

Canada Goose Holdings

Canada Goose (TSX:GOOS)(NYSE:GOOS) stock has taken shareholders on a ride. And depending when you got it and when you got out (if you did), satisfaction with this stock surely varies considerably. At the time of writing, Canada Goose stock is trading 172% higher than its IPO price and 50% lower than its 2018 highs.

In its latest quarter, Canada Goose reported an impressive 25% increase in sales. But this was not good enough, as the stock was pricing in higher expectations. Currently trading at 27 times this year's expected earnings, Canada Goose is certainly more attractively priced than in the past when it was trading at north of 40 times earnings.

But going forward, this retailer remains a risky investment in my view. As a luxury retailer that offers little or no diversification, it is at risk in a precarious consumer environment.

Dollarama

Dollarama (TSX:DOL) stock got hit in 2018. This stock fell from its investor darling status, as results did not meet very optimistic expectations and the stock fell from lofty valuations.

Now trading at 23 times this year's expected earnings, the stock has stabilized since the resetting of its valuation. In fact, it has done more than that and is up 34.5% year to date. Dollarama is the best bet among the retailers listed in this article, as it will be able to withstand a softer consumer spending environment, and as it has a solid competitive advantage within the industry.

CATEGORY

1. Investing

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2. TSX:DOL (Dollarama Inc.)
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