2 Recent IPOs on a Downslide: Which Is the Better Buy Today?

Description

The past decade has seen the emergence of the so-called retail apocalypse. Traditional retailers with a large brick-and-mortar presence have been throttled due to the rise of online shopping and dynamic e-commerce companies like **Amazon**. The retailers that have managed to survive this onslaught have been able to adjust to this new reality.

Two top Canadian clothing companies launched an initial public offering in 2017. These public listings were met with some skepticism by analysts to start off. Chaos in the retail sector has inspired apprehension among investors. Some have nearly sworn off the sector entirely, focusing exclusively on disruptors like Amazon or **Shopify**.

Today, we are going to take a snapshot of both 2017 clothing IPOs. Are either of these equities worth buying today?

Roots

Roots (TSX:ROOT) launched its IPO back in October 2017. At the time, I'd discussed the disappointing public listing and recommended two alternatives. One is the second stock we will cover today, the other was **Aritzia**. For reference, Aritzia stock has climbed over 40% since the publication of that article. Roots has lost over 60% of its value.

What is behind this brutal stretch? Roots has struggled to find its footing as it seeks to expand its e-commerce footprint. In its June Q1 2019 report, the company posted a first-quarter loss that was 75% deeper than the prior year. Inventory costs weighed on earnings in the face of higher sales. However, the company reiterated that its focus in the quarter was to improve its inventory position.

Its e-commerce traffic has improved, but it is difficult to get excited about Roots stock right now, even as a buy-low candidate. The stock has a price-to-earnings ratio above 20. Shares had an RSI of 45 as of close on July 5, which puts it in neutral territory.

Canada Goose

Canada Goose (TSX:GOOS)(NYSE:GOOS) came out of the gate slow after its March 2017 IPO, but the stock would richly reward investors who put their faith in this rising brand. The stock opened at $17 on the TSX. Shares hit an all-time high of $95.58 in late 2018 before a sharp plunge. This drop came after the arrest of Huawei executive Meng Wanzhou, which had investors worrying about Canada Goose's prospects in China.

These concerns would turn out to be unfounded, at least in the near term, as Canada Goose had a very successful opening at its new Beijing store in December 2018. Canada Goose missed revenue estimates for the first time when it released its fourth-quarter and full-year results in May. However, it reported 60% growth in its international segment.

Canada Goose is not the high flyer it was from its IPO to late 2018, but the value of its brand and the quality of the product should not be underestimated. It has demonstrated that it has staying power and the ability to successfully penetrate global markets. The stock has an admittedly high P/E of 39 right now, so even with the slide, we're paying a premium and betting on future growth.

Canada Goose is the pricier addition going by its technicals, but it has the higher ceiling and is the better buy of the two we have covered today.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)
3. TSX:ROOT (Roots Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/18
Date Created
2019/07/08
Author
aocallaghan