Better Buy: Canada Goose (TSX:GOOS) vs Roots (TSX:ROOT) in 2020

Description

Back in the summer I discussed two recent clothing IPOs that had met with mixed results over the past two years. Clothing retail has been a dicey proposition for investors over the past decade, which means we should pick carefully before pulling the trigger on a stock in this sector right now.

Today I want to compare the two stocks I'd looked at in July. Which is the better buy ahead of 2020? Let's dive in.

Canada Goose

Canada Goose (TSX:GOOS)(NYSE:GOOS) launched its initial public offering in March 2017. This year Canada Goose has failed to generate the kind of momentum that growth investors have come to expect from the winter clothing maker. Shares have dropped 16.9% this year as of mid-afternoon trading on October 24. Investors can expect to see its second quarter fiscal 2020 results in November.

In the first quarter, Canada Goose reported total revenue of $71.1 million, up 59.1% from the prior year. The company posted impressive growth in all its major regions, including 40.4% growth domestically and 79.7% in Europe and the rest of the world.

Canada Goose's gross margins missed estimates in the first quarter of fiscal 2020 as the company sold more of its light-weight spring season clothes. Management was encouraged by this product expansion and said that it expects to sell more of its profitable parkas as we approach the winter season.

Investors will want to look for a boost in the company's gross margins in its Q2 FY2020 results. Canada Goose is trading on the low end of its 52-week range, but it still does not offer appealing value ahead of its quarterly release. However, its top end growth makes it a better bet in the long-term than the second stock we will look at today.

Roots

Roots (TSX:ROOT) has been a disappointment since its initial public offering in October 2017. Shares have plunged 44% over the past three months. The stock hit an all-time low in trading on October 24, which sets a depressing mark for its two-year IPO anniversary.

The stock took a beating after the release of its second quarter fiscal 2020 results. Roots reported a $9.7 million loss in the quarter and said that it would not be able to meet its financial guidance for the year. Its second-quarter loss doubled-up from the prior year's $0.10 per share to $0.23 per share. On an adjusted basis, this almost tripled from a $0.06 loss per share to $0.15.

Comparable sales fell 2.9% year over year as Roots continued to struggle with low store traffic and a delay in the flow of product. The company expects that its sales guidance will fall below expectations, as will its EBITDA projection. Roots management has said that trends are more positive as we move into the third quarter.

Roots stock possesses a relative strength index (RSI) of 25, putting it into technically oversold territory. It is crunch time for the company as we approach the holiday season, but I'm not willing to place a bet on Roots at this stage even considering the technical buy signal.

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