Better Buy: Canada Goose Stock vs. Lululemon Stock

Description

The COVID-19 pandemic has decimated the retail sector. Brick-and-mortar outlets have been closed, and this has driven shares of retail companies to multi-year lows. **Canada Goose** (TSX:GOOS)(NYSE:GOOS) stock is trading at $29, which is 69% below its record high. Here we compare two retail giants and analyze which between Canada Goose stock and **lululemon athletica** (NASDAQ:LULU) stock is a better buy.

Canada Goose stock might gain momentum in the next few months

The recent pullback in Canada Goose stock price has given investors an opportunity to buy a growth company at a lower valuation. The stock went public in March 2017 at $17 per share and touched a record high in November 2018. However, valuation concerns, slowing growth, and the COVID-19 pandemic drove the stock to $18.27 in March 2020.

The Canada Goose stock trades on both the NYSE and TSX, which means investors south of the border can buy a stake in a top retail brand. Canada Goose is banking on the huge growth opportunity in China and other Asian markets to drive top-line growth in the upcoming decade.

In the fiscal third quarter of 2020, its revenue in Asia more than doubled to $94.7 million. This was 104% higher than sales of $46.4 million in the prior-year period. China is the world's largest luxury market, and Canada Goose's market presence here will hold it in good stead.

Over the years, Canada Goose has successfully created an aspirational brand name. It is well poised to experience a spike in sales once lockdown rules are relaxed due to pent-up demand.

The company's high product prices will help it maintain robust profit margins and drive the Canada Goose stock price upwards. In the December quarter, its operating margin stood at a healthy 23%. In fiscal 2020, analysts expect sales to grow by 13.8% and this figure is forecast at 5% in 2021. Its sales should accelerate considerably post fiscal 2021.

Canada Goose stock is trading at a forward price-to-sales multiple of 3.21. Its forward price-to-earnings multiple stands at 24, which is reasonable for a growth stock.

Why Lululemon stock is a buy?

Lululemon athletica (NASDAQ:LULU) stock touched a record high of $266.2 this year. Lululemon's stock price then fell to a 52-week low of $128.84 before gaining momentum in April to currently trade at $238. Despite the whirlwind movement, Lululemon stock is still up 38% in the last year.

Lululemon designs, distributes, and retails a portfolio of lifestyle-inspired athletic apparel and accessories. These products are marketed under the Lululemon brand. The company offers a comprehensive line of athletic and healthy lifestyle retail products for men and women.

In fiscal 2020, Lululemon reported revenue of $4 billion, up 21% year over year. However, this growth rate is expected to decelerate significantly in 2021. According to data from Yahoo! Finance, analysts expect company sales to grow by 1.9% to $4.05 billion in 2021. Lululemon has had to close stores across geographies since mid-March and did not provide any financial guidance for 2021. However, similar to Canada Goose, Lululemon sales should accelerate significantly post fiscal 2021.

The company's fundamentals remain strong. Sales and earnings have more than doubled in the last five years. It has a loyal customer base and invested in technologies such as RFID (radio-frequency identification) to manage inventory levels and optimize the supply chain.

Lululemon products are non-seasonal, which ensures steady demand throughout the year. Its mobile applications, e-commerce stores, and retail locations provide customers with multiple ways to buy products. Lululemon has no long-term debt and ended fiscal 2020 with a cash balance of $1.09 billion.

Lululemon stock went public back in July 2007. It has since returned 1,600% to shareholders. Lululemon stock is trading at a forward price-to-sales multiple of 7.6. Its forward price-to-earnings multiple stands at 53, which might seem expensive compared to other retail stocks. But growth companies tend to trade at a premium.

The verdict

It's almost impossible to choose between two retail growth companies with strong fundamentals and strong brand names. Investors should look to add both these companies to their portfolio and create massive wealth in the long term.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)
2. NYSE:GOOS (Canada Goose)
3. TSX:GOOS (Canada Goose)

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