Canada Goose Holdings Inc.: How Fast Will it Get to $30?

Description

In one of the biggest non-surprises of the week, **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) began trading as a public company March 16, immediately opening trading up 40% from its $17 IPO pricing.

The IPO market has been getting a lot of love in 2017 — a far cry from 2016, when, if not for specialty women's retailer **Aritzia Inc.** (TSX:ATZ) and its $400 million offering, investment bankers were left high and dry.

What's driving this resurgence in investor interest?

It's simple: greed.

People don't want to miss out on the next great stock to make them rich. I'm only half serious about this rationale. It has more to do with IPO markets traditionally following equity markets higher.

"The year after the previous market low of 2008, the IPO market in Canada bounced back to $1.8 billion in 2009 and $5.5 billion a year after that," PwC's Dean Braunsteiner said in early January. "It's sometimes darkest before the dawn."

Well, the dawn is upon us, and Canada Goose is the second big IPO out the door in 2017 with more likely to follow.

Real Matters, a Markham, Ontario, real estate data analytics company, is expected to raise $125 million by the end of March. Sources suggest it could be valued at close to $1 billion. And Fool.ca contributor Matt DiLallo recently discussed the possibility of **Kinder Morgan Inc.** (NYSE:KMI) doing an IPO in Canada to raise funds for the building of the Trans Mountain pipeline. If that happens, it will be one of the biggest IPOs in Canadian history.

Jay Ritter is a professor in Florida who studies IPOs. He's found that when a stock is priced above its IPO range — Canada Goose was expected between $14 and $16 — historically, it's averaged a 50% first-day return compared to 11% within the range and 3% below it.

So, between the historical experience and the excitement building with investors over IPOs, it's easy to see why Canada Goose is up so much.

The big question is, How fast can it get to $30? As I write this, Canada Goose is trading at $21.56, having lost momentum throughout the morning hours yesterday, but it's still up 26.8% on the day — only 39% away from $30.

This is not a cheap stock.

"It's a great Canadian story; but it's trading at 36x earnings, which is close to the valuation for Hermès," said Paul Harris, partner and portfolio manager at Avenue Investment Management, in an interview with BNN. "I think a Hermès scarf is much nicer than a Canada Goose jacket, but that's just me."

Fashion tastes aside, Canada Goose's move from luxury parka maker to four-season apparel company is not going to be easy. Add to the mix the fact that it's trying to build its own retail store network at a time when retailers are closing stores by the boatload, and you've got a tricky mountain to climb.

Wisely, Canada Goose is using the proceeds it's getting from the IPO to cut its debt by $100 million to $178 million, something I warned investors about in February. Unfortunately, rather than sell more shares to the public by issuing new ones, Bain Capital and other pre-IPO investors are selling 13.7 million shares to the public with none of it going to the company.

Like most IPOs that come out of the gate fast, they end up falling back near or below initial pricing. I wouldn't be buying at these prices, but, in my experience, if it's going to hit $30, its best chance could be sooner rather than later.

Editor's note: A previous version of this article incorrectly identified Canada Goose as the first Canadian IPO of 2017. It is the second IPO of the year so far. The Fool regrets the error.

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