Be Careful Not to Burn Yourself With Canada Goose Holdings Inc.

Description

The winters here in Canada are very cold, so you need a coat to keep you warm. If you're ready to pay a high price to get a quality winter coat made in Canada, then you're going to like the coats made by **Canada Goose Holdings Inc.** (TXS:GOOS)(NYSE:GOOS).

Indeed, this company, which was founded in 1957 in Toronto, is a designer, manufacturer, distributor, and retailer of luxury outerwear for men, women, and children. It went public on March 16, 2017, when it began trading on both the TSX and the NYSE. Shares of Canada Goose climbed 27% in Toronto on the day of its IPO.

Is it still time to buy this hot stock? Let's analyze this coat maker more deeply to see if it is a good buy.

High growth and profit

Canada Goose has experienced significant growth in net income. Net income grew by 82.26% year over year to $0.36 per share during the most recently completed quarter. This was among the strongest growth seen by any company in this industry. The company reported high and increasing gross margins. Gross margins increased from 38.6% in 2014 to 50.1% in 2016. The return on equity was very high, reaching 53.48%.

So, if you believe the company will continue to show strong growth, you may be tempted to rush into this stock. But be careful; there are not only upsides to this stock, but there are also a few downsides that could make you less enthusiastic.

Pricey outerwear, pricey stock

Canada Goose is renowned for its expensive luxury parkas which can cost more than $1,000. Its stock is also very expensive. Indeed, the P/E one-year forward is 63.83. In contrast, the S&P/TSX forward P/E is only 16.8. You can think that the high P/E is justified given the high growth prospects of the company.

The forward P/E-to-growth (PEG) ratio can help you determine if you are paying too much for a stock.

A PEG ratio below one means the stock is undervalued, while a PEG ratio above one means it is overpriced. The forward PEG for Canada Goose stock is 2.96, which means you are paying too much for its growth.

Trends don't last

Canada Goose operates in the fashion industry, and you may know that in this sector, trends don't last. Canada Goose's high-priced parkas may be popular now, but who knows if that is going to be the case in the future. Those kinds of clothes are designed for a very specific clientele, which is also very limited. Not everyone is able to buy a winter coat priced at $1,000. Canada Goose's stock is trendy right now, but like clothing, it could become outdated quickly.

If you are investing for the short term and are looking for growth stocks, Canada Goose could be a good buy. But if you are a long-term investor that chases value stocks, you should probably stay away from this stock for the moment since it looks too high priced.

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