Why Canada Goose Holdings Inc.'s Strong Q2 Shouldn't Convince You to Buy the Stock

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) saw its stock soar more than 13% on Thursday after the company released its quarterly earnings. The company's Q2 results recorded solid revenue growth of 35% from last year and net income was up a staggering 85%. Canada Goose also raised its guidance for 2018.

At all levels, it looks like Canada Goose had an excellent quarter. However, with the stock near its all-time high, it might have gotten too expensive for investors. Let's take a closer look at the company's financials and assess if it is a good buy today.

Company continues to mount debt due to a lack of cash flow

Over the past six months, the company's cash flow from operations drained $93 million in cash compared to $72 million in the prior year. This has resulted in the company having to take on more debt with $110 million borrowed during this time compared to $146 million a year ago.

As a result, Canada Goose has seen its liabilities rise by $112 million since the end of March for an increase of 48%. Although the company's term loan has seen a slight improvement since then, debt from its revolving facility has grown from $6 million two quarters ago to over $116 million.

Debt is not an issue that investors should scoff at, and you need to look no further than **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) as an example of how debt can cause problems for a company.

Could liquidity be a problem?

Receivables and inventory made up 90% of the company's current assets in Q2, and that is up from 82% just six months ago. Receivables of just under $100 million have grown significantly from less than $9 million two quarters ago. Inventory has grown by 23% as well during that time.

The concern I see is that with a spike in receivables, you would have a lot of inventory going out, and yet Canada Goose's inventory remains noticeably higher than it was just six months ago. The company is obviously banking on some strong sales during the winter, but tying a lot of money up in inventory could be problematic, especially for a company that is not bringing in money from its operations.

Current valuation is very high

In the trailing 12 months, Canada Goose's revenue has totaled $41 million, giving it earnings per share of ~$0.37. At a share price of over $31, the stock is trading at a whopping 85 times its earnings. In addition, the stock is also valued at more than 20 times its book value and especially with the share price being near its 52-week high, that makes Canada Goose's stock very expensive, even with the strong growth it has achieved.

Should you buy Canada Goose?

Canada Goose might present some great growth opportunities ahead, but you certainly aren't buying low at its current share price. There are some concerns that I see with the stock, and the high price of the company's clothing suggests to me that its sales might run into a ceiling sooner rather than later. It's also one reason that I think that **Gildan Activewear Inc.** (TSX:GIL)(NYSE:GIL) is a better buy with its more moderately priced apparel.

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