Canada Goose Holdings Inc. Tipped for a Further 7% Upside: Time to Buy?

Description

Bank of America **Merrill Lynch** analysts recently upgraded their price target on **Canada Goose Holdings Inc**. (TSX:GOOS)(NYSE:GOOS) stock by 11% to $39 from a previous target of $35 a share on November 27, tipping the stock for a further 14.7% upside from its $34.15 trading levels during that day.

The recent rally to $36.44 by December 12 only leaves a 7% upside to that target now.

The investment firm pointed to the strong pricing on winter parkas for the early part of the winter season, but it may also have overlooked the new product line additions to the company's retail outlets as well as the growing client volumes as the retailer opens new outlets across the globe.

The bullish sentiment on the up-market premium apparel designer's equity came after Canada Goose delivered emphatic earnings and revenue beats in its second-quarter (Q2 2018) financial results reported on November 9.

Canada Goose's latest earnings buoyed the stock further up after beating analyst estimates by $0.08 a share to report net earnings per share (EPS) of $0.29 from quarterly revenues of $172.33 million, which were $22.33 million higher that street forecasts.

A 34.7% year-on-year revenue growth from the previous quarter last year was all the more bullish, justifying a higher valuation multiple on the shares.

Should you buy at these levels?

The stock offers immense growth potential, but the recent sharp rally may have been overdone. Buying the dips could be the most profitable option.

Canada Goose stock is up 69% from its early April trading levels around $21.53 soon after its initial public offering. However, the stock took a 31.42% plunge from its early June peak of ~$31.44 to trade back at $21.56 levels by August 21 — its first significant dip.

Right now, the stock price is back 69%, up from the August dip, and the shares are trading at higher valuations multiples, with trailing PE multiple around 52 times — too rich for a retail stock.

With this price performance in hindsight, long-term investors may want to revisit their valuation models again and check if the stock still has much upside in the near term or the valuation is due for a correction.

The latest rally since the beginning of September this year has given investors 67% in price returns in a little over three months.

I believe the stock price has rallied faster than the company’s fundamentals. A consumer discretionary stock that sells top-end products to a world market, whose growth may slow down in 2018, may lead to a price multiples contraction.

That said, Canada Goose’s gross margin expanded from 46% to 50% last quarter, and the growing shift in its distribution model from predominantly wholesale towards a more direct-to-market retail presence globally through new retail outlets and increased online sales increases the company’s profit margins by a wide margin.

The opening of a few new stores this quarter, introduction of knitwear to the product line, the growing client numbers, and increased brand awareness could position Canada Goose for a great December quarter this year, further supporting the stock price when the company reports in February next year.

Investment research firm Cowen Research initiated coverage on Canada Goose with an “Outperform” rating published November 17, after conducting a proprietary survey of consumers, and its analyst Oliver Chen, assigned a price target of $37 to the stock when the share price was still trading under $32 on the TSX at the time.

While we should note that analyst price targets will always be moving targets, the message out there is that these professionals expect Canada Goose to do very well in the near future and would be willing to pay a premium to hold the outperforming stock.

Taking into account the growing giant’s further e-commerce roll-out in Europe and the potential revenue boost from a possible China market entrance, and adding to this the company’s growing brand awareness lately, Canada Goose is poised to outperform the TSX by a wide margin next year.

Investor takeaway

Canada Goose is more likely to run out of stock than to lose customers this quarter. Although current valuations may be rich, long-term investors could do well by buying the dips in the stock price going forward.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/29
Date Created
2017/12/13
Author
brianparadza