Should You Buy Canada Goose Holdings Inc. Ahead of Earnings?

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) has been listed on the TSX for almost a year now, and the results have been encouraging. In less than a year, the stock price has doubled, and the company has continued to show incredible growth. Canada Goose will release its third-quarter results in early February, and investors may be wondering if now is a good time to buy.

Let's take a closer look at how Canada Goose has done, where its value is today, and whether the stock is a good buy ahead of its upcoming earnings.

Growth has been strong, but can it last?

In its most recent quarter, sales were up more than 34%, and net income nearly doubled from a year ago. However, in two of the past three quarters, the company has finished in the red. In fiscal 2017, the company's revenues broke through $400 million and were up 39% from 2016.

Over the past three years, sales have more than doubled and are on pace for another great year. Revenue in the trailing 12 months has totaled $460 million. Canada Goose has been averaging a profit margin of a little less than 9%.

The problem I see is that even though the company had a strong Q2, there are several warning flags for investors. Growing inventory and debt levels are not things that should be ignored by investors, and you only need to look as far as **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) to see the problems that can occur when a company gets saddled with too much debt.

The retail world has been a tough one, and while Canada Goose is showing tremendous growth so far, it's hard to envision a big market for $1,000 parkas and other high-priced clothing items.

Stock is not a value buy

At a book value of just over $1.6, Canada Goose is trading 27 times that amount. With limited earnings, the stock is also at a price-to-earnings multiple north of 100. Value investors will not have much attraction to this stock, and Canada Goose is only a good buy at the price if you see the growth continuing, which I'm skeptical of.

Should you buy before Q3?

The company's upcoming earnings is its peak season, and a year ago sales totaled more than $209 million, which was a 63% increase from the previous quarter. A similar jump this year would send sales to over $280 million.

However, it's this seasonality that also possesses a big risk. A warmer-than-normal winter could wreak havoc on the company's financials. The company effectively has two off-peak quarters: those ending in March and June. Revenue during these quarters combined for less than $80 million this past year, less than half of Q2 totals.

Canada Goose is not a stock that I would consider buying when you consider its high valuation and limited market potential. While the stock may have generated significant returns already, that makes me concerned that there might not be much upside left at the current value.

There might be some decent returns that could be achieved in the short term, but this is not a stock that I'd suggest leaving in your portfolio for a long period of time.

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