Canada Goose Holdings Inc. Is at 52-Week Highs: Is This the Calm Before the Storm?

Description

With **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) hitting new 52-week highs, I think it's a good time to revisit the stock to determine whether the shares are a good buy or a sell.

The 60-year-old $4.8 billion apparel retailer has certainly had a great run. The stock IPO'd at $17 a share, quickly proceeded to rise, and is currently trading 163% higher at over $44 a share.

In fact, the shares were hot right out of the gate and posted a 26% return on the first day of trading.

Trading at 76 times this year's estimated earnings and 59 times next year's estimated earnings, the stock is clearly pricing in a lot of good news. But is this good news coming, or are we in for disappointment and the consequent stock price fallout?

Canada Goose's most recent quarter, the second quarter of fiscal 2018, was a strong one, with revenue increasing 34.7%, the gross margin increasing to 50.5% from 46.4%, and EPS increasing 38%, as direct-to-consumer revenue increased fourfold, with the North American e-commerce business showing clear strength.

But while margins and returns are industry leading, valuation matters — especially at a time when household debt is at all-time record highs, interest rates are rising, and the consumer will most certainly feel the pinch and thus have lower disposable income.

Also, at the end of the day, the retail industry is cyclical and subject to fads that go out of fashion just as quickly as they go in.

Canada Goose is an iconic brand that has a long history of success, so it's clearly doing many things right, but paying these kinds of multiples for this company is a bit much.

With over 40 years in existence, **Roots Corp.** (TSX:ROOT) also has a powerful brand that is known for its quality and style. It's a good alternative for the investor who is looking for exposure to a fast-growing retailer.

In the last three years, the company has grown its revenue at a CAGR of 14%, and the company's gross margin is higher than Canada Goose's at 55%.

In the latest quarter, revenue increased 13%, same-store sales increased 10%, and adjusted EPS increased 26%.

Roots trades at much more attractive multiples of 18 times this year's expected earnings and 16 times next year's earnings and represents a much better buy case.

In summary, considering the steep cost of Canada Goose parkas, which will become more of a problem if consumers have less disposable income as rates rise, the stock's rich valuation and the potential problems that may arise given PETA's vocal opposition to Canada Goose using goose and duck feathers and coyote fur in its apparel, I think this stock is setting up for a decline.

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Date
2025/08/25
Date Created
2018/02/06
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