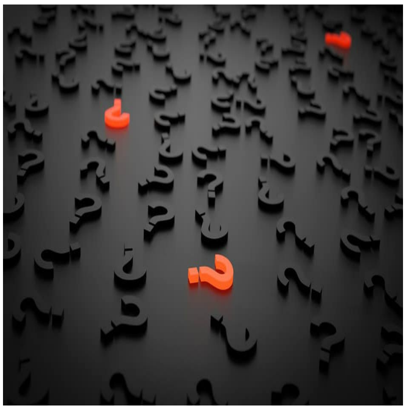

A Good Quarter and an Earnings Beat: Why Is Canada Goose Holdings Inc. Down?

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) recently released its third-quarter results which were strong, as the company's sales rose 27% from last year, and profits were also up more than 60%.

You might have expected that the stock price would have been soaring on these results, but instead, the share has dropped more than 20% since the earnings release, leaving many investors scratching their heads wondering what has happened.

Why would the share price drop despite such a strong quarter?

Unfortunately, sometimes a good quarter just isn't enough to satisfy investors. Although Canada Goose had a great quarter, it did not increase its forecast, and that could be concerning to investors, especially given that the company has seen many of its products sell out and certain items only having limited sizes available.

Canada Goose CEO Dani Reiss downplayed the problem: "We are not afraid to be sold out. Being sold out to me, and to our company, is a good thing, and I think it shows lots of demand for our product." While it may be true that high demand is not a bad problem to have, not having enough supply could be a cause for concern since it can result in lost sales.

In addition, the company is also undergoing a change in management, as its CFO is retiring this year.

While none of these items on their own should raise big alarm bells for investors, collectively, the issues contributed to a significant sell-off for a stock that has had a strong performance since listing on the TSX, as the share price is still up nearly 80% since its IPO.

Was the stock overpriced?

Another possible reason for the recent drop in price is that the shares were overpriced to begin with. Recently, we've seen the markets tank, as investors have had second thoughts about highly valued investments like cannabis and Bitcoin, which saw big drops in value.

It’s perhaps no surprise then that Canada Goose has seen a decline in price as well, and it may have been market-related pessimism that overshadowed the positive results that the company reported. Even after the recent decline in share price, Canada Goose is still trading at more than 60 times its earnings and 17 times its book value.

Could we see more of a decline?

Despite the steep sell-off recently, the stock is still not in oversold territory, and depending on the direction of the markets as a whole, more a drop in price could still take place. The shares are still very expensive, and they might be perceived as overvalued by investors, making it a good possibility that a further decline could be in the cards.

What should investors do?

Although Canada Goose has shown good growth in recent quarters, the stock’s high valuation would make me concerned that it still needs more of a drop in price to be a good value buy. Until the bleeding stops, investors should be careful to jump aboard the stock just yet, as the markets appear to be poised to trim highly valued shares.

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