Is Canada Goose Holdings Inc. a Good Buy?

Description

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS) is a retailer that designs, manufactures, distributes, and retails luxury and fashionable outerwear. The Canada Goose brand has established itself as a status symbol and has enjoyed tremendous success since its IPO last March. If investors were lucky enough to purchase the stock at its IPO price, they would be sitting on gains approximately 150%.

Canada Goose has set itself apart from the retail sector by positioning itself as a leader in both quality and luxury. The company has very high retention and high brand-awareness rates. Over the past number of years, it has constantly ranked among the top brands in Canada according to *Canadian Business* magazine.

Canada Goose has a four-pronged approach to growth. It intends to expand its geographic footprint, increase online penetration, expand product offerings, and improve operations. The most exciting is its focus on e-commerce and a direct-to-consumer (DTC) strategy. As it stands, the company's product channel mix is approximately 71% wholesale and 29% DTC. Canada Goose currently has proprietary e-commerce stores set up in nine countries. Considering that the company's product is sold in 37 countries, it has ample room to expand its e-commerce presence.

Why is this important? It's about the drive for higher margins. According to management, online sales lead to approximately two to four times more operating income. The strategy is clearly working, as adjusted earnings before interest, taxes, depreciation, and amortization has grown by 304% basis points over the past three years. Likewise, in its most recent third-quarter results, gross margins grew to 63.6% from 57.5% in the prior year on the back of higher online sales.

It can sometimes be difficult to properly evaluate growth stocks, and the price-to-earnings (P/E) ratio, one of the most relied upon valuation metrics, is often irrelevant. At first glance, Canada Goose's current P/E of 79 looks expensive. However, the P/E ratio is reflective of past performance, and for a growth company like Canada Goose, investors should be more interested in metrics that analyze future growth.

When compared to future earnings, the company is trading at a forward P/E of 48.22, which is reflective of its expected earnings-growth rate of 47%. There is also a good chance that estimates are on the low end. Since it went public, Canada Goose has beaten analysts' earnings estimates by an average of approximately 29%. The company's P/E-to-growth (PEG) is a respectable 1.65, indicating that the company is fairly valued.

How will Canada Goose finance its impressive growth? The company's sustainable growth rate, the rate at which a company can grow without the need for external financing, is a healthy 73%. As a result, the company is well positioned to achieve expected growth targets without the need to issue additional equity.

Bottom line

Canada Goose is well positioned to reach impressive growth targets over the next few years. Although its current P/E may seem a little expensive, on a forward basis the company is trading at a fair valuation. Investors should consider an investment in Canada Goose on any weakness.

CATEGORY

1. Investing

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

Date
2025/07/05
Date Created
2018/02/26
Author
mlitalien