Canada Goose Holdings Inc. Had a Great 1st Year on the TSX: Is it Still a Good Buy?

Description

It's been about a year since **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) first started trading on the TSX, and I thought it would be a good time to recap how the stock has done and see if it's a good buy going forward.

In the year that the stock has been listed, its share price has nearly doubled, and a lot of those gains have come in the past six months when the stock soared more than 75%. It's an impressive performance given that current economic conditions suggest people might have less disposable income to spend on high-end clothing.

What's behind the strong share price?

Canada Goose has continued to show excellent growth, and in its most recent quarter, sales of $266 million were up more than 27% year over year. Total revenue for the trailing 12 months has been over $500 million, and that is more than triple the $152 million that Canada Goose recorded in its 2014 fiscal year.

Initially, I was skeptical about the stock, but the results have proven that consumers are willing to pay a premium for quality winter wear. The company has positioned itself as one that focuses on quality and craftsmanship, and as companies look to outsource to maximize their bottom lines, Canada Goose has separated itself from the pack.

How much growth is left?

The big question for me is how much Canada Goose can continue to grow. Although the company has achieved significant growth in the past few years, the market is limited for luxury clothing, particularly winter wear. With interest rates rising, housing costs will be on their way up, which will result in less disposable income for consumers. Parkas priced at over $1,000 will be unattainable for many consumers.

In its most recent earnings report, the company had a very good quarter and beat expectations amid concerns of not having enough inventory on hand to meet demand. Despite that, the stock has still been down 14% in the past month, as we've seen investors sell expensive stocks, leading us to yet another important question:

Is the share price too expensive?

At earnings per share of ~$0.60, the stock trades at nearly 70 times its earnings and 18 times its book value, both of which are very high multiples. There's no question that the stock is trading at a big premium, and that's likely a big reason behind the recent slide.

Bottom line

Canada Goose has performed very well in the past year — much better than I expected. However, I would still caution investors with this stock because at the high multiples it trades at, it would be difficult to see the company achieving enough growth to justify its current price tag.

It's always easier to grow your top line when you have a smaller starting point, but as revenues increase, it becomes much more challenging to maintain that pace. Given the struggles we've seen in retail in the past few years, it's very likely that the company will run into a ceiling sooner or later.

Although Canada Goose has proven to be a good stock, at the current price, it's simply too expensive to be a good buy today.

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