Is Canada Goose Holdings Inc. Overcooked?

Description

The Financial Post laid out the best- and worst-performing TSX stocks for the first half of 2018, and at the very top of the list of winners is **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS), up 108.3%.

Wow.

We knew Canada Goose was a popular brand both here and elsewhere, but it appears its stock is even hotter. Up almost four-fold since it went public in March 2017 at $17 a share, now is a good time to determine whether a cool-down is just around the corner.

There's no shortage of Fool contributors with an opinion on where its stock is headed, including yours truly. However, before I weigh in on the subject, I thought I'd turn to some of my colleagues' opinions about what is arguably one of North America's hottest stocks.

Canada Goose stock is ready to cool down

There's no question that Canada Goose is expensive, trading at 14.5 times sales at the time of writing. By comparison, two other recent retail IPOs — **Roots Corp.** (TSX:ROOT) and **Aritzia Inc.** (TSX:ATZ) — are currently trading at 1.4 and 2.4 times sales, respectively — an amazing statistic when you consider that Roots and Aritzia aren't exactly retail slouches.

"It is difficult to doubt the leadership at Canada Goose and its brand, but its valuation is simply too high at this stage to recommend the stock," stated Ambrose O'Callaghan June 19. "Investors should look for entry points heading into this summer, but this may be a challenge after these impressive [Q4 2018] numbers."

Out of 218 TSX stocks with a market cap greater than $1 billion, Canada Goose's price-to-sales ratio is the 11th highest. That's unheard of for a Canadian retail or apparel brand.

Put another way, Canada Goose's current P/S ratio is the same as **Netflix, Inc.'s** (NASDAQ:NFLX), a company with greater global potential from a revenue standpoint.

Canada Goose stock is ready to go higher

They say you should never sell your winners and quickly cut your losers. Momentum stocks often tend to keep going in the same direction until the story dramatically changes. From this perspective, while it's tempting to take profits, you might be missing out on even bigger gains in the next 12-24 months.

"Sky-high margins to go with astronomical international growth through physical and digital direct-to-consumer channels? Sounds like a formula for massive long-term growth," stated Joey Frenette June 21. "With Canada Goose about to break into the Chinese market, more upward spikes like the one experienced on June 15 [Q4 2018 earnings] may be in the cards for future quarterly releases."

Of course, that cuts both ways. If Canada Goose were to deliver ho-hum earnings in the first quarter, its stock would definitely get clipped.

Nonetheless, Frenette makes a good point, namely that market timing a stock like this often ends up costing you more money by waiting for the perfect entry point than simply getting in at a price that seems overcooked.

The bottom line on Canada Goose stock

My most recent article about Canada Goose came in May, after **Canadian Tire Corporation Limited** (TSX:CTC.A) bought Helly Hansen for $985 million — a deal I argued makes sense for Canada's iconic retailer.

However, Canadian Tire's purchase, while good for the company, is not something Canada Goose shareholders need to lose any sleep over.

"The only thing Canada Goose shareholders should be worried about is whether its direct-to-consumer sales continue to grow by double digits," I wrote May 23. "Helly Hansen is a good move for Canadian Tire, but let's not confuse a smart acquisition with a formidable foe. Canadian Tire's gain is not Canada Goose's loss — not by a long shot."

If you own GOOS, I wouldn't sell it. If you don't own it, you might want to buy some now and hope that it retreats a little so you can buy some more.

Is Canada Goose overcooked? Yes, but in a good way!

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