Should You Buy Canada Goose Holdings Inc (TSX:GOOS) Ahead of Q2 Earnings?

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) is expected to release its Q2 earnings later this week. The company has seen terrific growth in its time on the TSX, beating estimates with ease time and time again.

Last quarter, the company beat expectations with sales growth of over 60% year over year. Unfortunately, it wasn't able to turn a profit while doing so, landing in the red for just the second time in the past five quarters.

As a result, the share price has struggled over the past three months, rising just 3% during that time, and that's only after a recent rally after the stock hit lows of around $61.

The challenge for Canada Goose will be that it's going to up against some pretty strong numbers in Q2, unlike in Q1, which is off-peak.

Growth opportunities remain significant

While it may be a daunting battle, especially when your sales are growing at such high rates, Canada Goose has shown time and again its ability to increase its top line.

Growing internationally, and in particular, relying more on direct-to-consumer sales will help the company reach more people around the world while being able to take advantage of higher margins as well. This is going to be key if Canada Goose can grow sales, and do so profitably.

Another avenue for potential growth for the company is in footwear sales, as earlier this month Canada Goose announced that it had acquired Baffin Inc. for $32.5 million. The footwear manufacturer will give Canada Goose a very valuable segment to add to its sales mix, and will be a very complementary product to sell to existing consumers.

While Canada Goose does not expect footwear sales to have much of an impact for this fiscal year, it's a good long-term play that will unlock a lot more value for the company. Canada Goose will announce more details when it releases its upcoming earnings.

Is the stock too expensive to buy?

Even if Canada Goose does have another strong quarter, how much of a boost its stock will get is the big question. Outside of a few weeks during the year, Canada Goose's stock has stayed under $80 per share, and I wouldn't bet on Q2 results changing that.

We've recently seen the markets in a bit of a downturn; speculative, expensive stocks have been the hardest. Stocks that trade at high multiples are prime targets for a sell-off because many investors have already earned a lot from the stocks and the valuations are simply unsustainable.

Consider that Canada Goose is trading at nearly 40 times book value and more than 95 times its earnings. At multiples that high, you would have to expect significant growth every quarter for the stock to be worth that price.

The problem is that achieving such significant growth has effectively been priced into the stock, which means that unless Canada Goose goes over and above its incredibly strong track record, it's not likely to get a big boost from earnings.

Overall, there's a lot more risk than there is opportunity for investors that buy Canada Goose today. It's a quality stock, but at a really high price.

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