Canada Goose Holdings Inc. (TSX:GOOS) Stock Is the Gift That Keeps on Giving

Description

Canada Goose (TSX:GOOS)(NYSE:GOOS) stock fell 1.55% on November 29. Shares have surged 41.1% month-over-month on the back of a very positive fiscal 2019 second-quarter earnings report. This was enough to push the stock to all-time highs, but it has since retreated.

Back in October I'd discussed why Canada Goose was still a good addition to a portfolio even in the face of a global stock sell off. Canada Goose stock last posted an RSI of 57, meaning it is still shy of overbought territory. The company saw earnings surge after the 2017 holiday season. There is good reason to believe 2018 will be more of the same.

The second quarter of fiscal 2019 covered the three-month period ending September 30, 2018. Historically Canada Goose has seen the most activity in third quarters. In Q2 Canada Goose reported strong performance in its retail stores and the company has continued to see big growth in its e-commerce channels. Canada Goose is the beneficiary of very favourable profit margins on coats bought online.

In the United States, Black Friday brought in $6.2 billion in online sales, representing 23.6% growth year over year. Cyber Monday recorded $7.9 billion in sales, with $2.2 billion of those sales made through smartphones. This represented a 17% increase in sales compared to the prior year. Canadian sales results have yet to be released, but its performance has steadily improved especially considering the U.S. side has the added benefit of coinciding with the Thanksgiving holiday.

The brand success for Canada Goose in the domestic market has been impressive, but its push into the Chinese market is what has most analysts excited. In an interview in Beijing, Canada Goose CEO Dani Reiss said that the company has dealt with counterfeit coats in China since its international launch. Although China is a lucrative and promising market, Canada Goose will be forced to contend with these counterfeits which could provide a challenge. The counterfeits sell for a fraction of the price of a Canada Goose parka, which can run consumers up to $1,550.

The Canada Goose flagship store in Beijing will also be challenged by Italian coat maker Moncler, which has established a strong footprint in Asia. Its Asia-based retail makes up 40% of its sales. Canada Goose will hope to pull away consumers on the strength of its brand which has become a status symbol in China.

The substantial growth of the upper and middle class in China will also provide fertile ground for a luxury retailer. According to a study by McKinsey & Company, 76% of China's urban population will be considered middle class by 2022.

Canada Goose is especially popular among the younger Chinese generation, which is what will fuel consumer growth in the coming years. According to the Boston Consulting Group, consumption spending among Chinese youth is growing at a rate of about 15% annually, which is much higher than older generations which have had a historical aversion to excessive debt. This young generation is forecast to account for 53% of total Chinese consumption by 2020.

These developments bode extremely well for Canada Goose, which already has substantial brand recognition. Canada Goose is pricey, but is in a great position to remain one of the top growth stocks on the TSX into the next decade on the back of this bold expansion.

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aocallaghan