



Is Canada Goose Holdings (TSX:GOOS) Still a Buy After Canada-China Tensions Mount?

Description

Canada Goose Holdings ([TSX:GOOS](#))([NYSE:GOOS](#)) has been one of the best-performing Canadian stocks in 2018. Up 79% year to date as of this writing, it has outperformed the benchmark by an enormous margin. But recently, the Canada-China dispute over the [arrest](#) of **Huawei** CFO Meng Wanzhou has created trouble for the company.

Wanzhou's arrest led to outcry from Chinese citizens, who have called for boycotts of U.S. and Canadian companies, including Canada Goose. This has potential ramifications for the company, which has a large presence in China. Although Canada Goose has not released specific China sales figures, they appear to be significant, as the company has been preparing to open a flagship store in Beijing. More generally, plans of "Chinese expansion" are frequently mentioned in the company's quarterly reports.

If serious, threats of a mass Chinese boycott could spell bad news for Canada Goose. The question is whether these threats have any teeth and whether they will subside after the Wanzhou affair is resolved. But before we get to that, we need to understand why China matters so much to this company.

Why China is so important to Canada Goose

Canada Goose is a hot company right now. Aside from the fact that its stock is on fire this year, it's also growing earnings at 35% year over year, with an impressive ROE of 45%. A big part of the reason Canada Goose is growing so fast is because of its parkas, which are ubiquitous in big cities around the world — [including in China](#).

Although Canada Goose does not parse out its quarterly earnings by region, the frequency with which China is mentioned in these reports indicates that the country is a big source of revenue growth for the company. Should that growth start to stall, overall growth will suffer as well.

The Apple ([NASDAQ:AAPL](#)) case study

The situation Canada Goose finds itself in can be understood by reference to, of all things, Apple.

Apple is one of the world's largest smartphone makers. Its sales are disproportionately concentrated in the U.S., where has a huge market share. This massive market share is actually a problem: it means the company has limited avenues to increased sales in its home country. So, Apple had been looking to China for years as a new market to prop up sales.

The problem is that Apple's Chinese market share has been falling quarter after quarter, and recently total sales have started falling, too. For now, Apple is still a behemoth, growing earnings at 40% year over year.

But for Canada Goose, which depends on one product category and doesn't have a services business to prop up revenue, a sales decline in China could be catastrophic.

Is it still a buy?

In my opinion, a mass Chinese boycott would be bad news for Canada Goose. However, the stock is still a strong performer, with phenomenal returns on equity and strong earnings growth. My position would be to wait for both Q3 2019 earnings and for the Wanzhou affair to play out before taking a position. These will give a better indication on how this political controversy is affecting the company's sales.

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