Why Canada Goose Holdings Inc (TSX:GOOS) Stock Jumped 9% This Morning

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) has been struggling lately, but today the stock has gotten a much-needed boost. Recently, the company opened its newest store in Beijing as its expansion into China is now well underway. With a long lineup of customers looking to get into the flagship location, it was a sign that investors needed, especially after tensions between China and Canada that led to some pushing for a boycott of the company's products.

However, actions speak louder than words, and a strong showing of customers in Canada Goose's newest location certainly helped to alleviate concerns about its growth prospects in China. After all, the recent geopolitical issues have nothing to do with the company and, at best, would have a temporary impact on sales.

Nonetheless, the stock has crashed heavily in recent weeks with its share price falling from over $90 to below $60 as of the end of last week. A strong quarter looked like it might send the stock to $100, but news of Huawei's CFO being arrested in Canada led to concerns for Canadian companies doing business in China and negated the recent results. It's proof of just how global any issue can be, with far-reaching consequences that can impact innocent bystanders along the way.

Big response from investors in early trading

Canada Goose's stock was up to over $62 in early trading Monday morning for an increase of more than 9% from Friday's close, although it has given back some of those gains since then. It's an important vote of confidence from investors, suggesting they are pleased with store's new opening and there not being any visible signs of a boycott being in place.

Can the stock get back to its previous highs?

The big question, however, is how much of a recovery the stock will make. Canada Goose has been one of the best stocks on the TSX this year, climbing more than 40% year to date, and that's even after the big decline that it's been on in the past month. The biggest obstacle I see is the stock's valuation, which is still at obscene levels.

With a price-to-earnings ratio of over 60 and the stock trading more than 22 times its book value, it's hard to justify buying in at these levels. While the company has achieved considerable growth in its limited time on the TSX, it's still a hefty premium to pay, especially as we've seen investors shed highly priced and speculative investments lately.

However, all it takes on the markets is a bit of excitement for a stock to get going, and another strong quarter from Canada Goose could jumpstart the stock yet again. In its last quarter, sales were up more than 33% year over year, while profits were up by even more. There aren't many stocks on the TSX that have been able to achieve the strong, consistent growth that Canada Goose has, and that's what makes it so highly coveted.

Bottom line

While I wouldn't be surprised for Canada Goose to climb back up to $70 or even $80 a share, I wouldn't suggest buying it at those prices. The stock is a bit expensive, and buying at a big premium puts your portfolio at risk for a correction later.

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Date
2025/08/26
Date Created
2018/12/31
Author
djagielski