Is Canada Goose Holdings Inc. (TSX:GOOS) Really a Good Stock for New Investors?

Description

The following TSX index superstar has been dazzling investors with its seemingly limitless upside for some time now. With a rise to the top of the stock market favourites list that's been compared fairly accurately with some of the best U.S. tech stocks, this leading light of the Canadian luxury goods industry is definitely worth a gander.

However, with overheated multiples, is it really a strong buy for value-focused newcomers investing in Canadian stocks for the first time?

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS)

Let's take a look at a key metric for this very popular luxury goods stock: growth. A one-year past earnings growth of 151.5% is massive, especially when compared with the industry average of just 2.6%; even a slightly more staid five-year average past earnings growth of 54.1% trounces its peers. This growth differential is one of the main factors that makes Canada Goose Holdings such a remarkable stock.

But can the luxury outerwear manufacturer really be recommended to value-focused new investors coming to the TSX index for the first time? The short answer is no: a high P/E ratio of 60.5 times earnings could be overlooked with that kind of growth if other variables were low, but a P/B of 22.3 times book makes this one of the worst-valued stocks on the TSX index in terms of assets.

A lack of dividends and a high volume of inside sales of shares in the last three months are both reasons to pause before investing value, while a comparative debt level of 93.7% of net worth feels a little high for a stock that is overvalued and belongs to an industry that ordinarily has seen very little growth.

Enough upside to feather your nest?

That said, Canada Goose Holdings is a high-quality stock, if the usual indicators are anything to go by: a past-year ROE of 36% is encouraging, and while its last recorded quarter EPS of $0.94 could be higher, a 35.9% expected annual growth in earnings suggests that this is one of the best stocks for realistic upside currently listed on the TSX index.

Volatility isn't usually a noticeable characteristic of this stock, though expansion hiccups and the turbulent Christmas period have taken their toll a little. Up 1.22% in the last five days, though actually down 2.16% for the day at the time of writing, this is a stock showing an interesting fluctuation in a moderately roiled market.

Going back to that huge outperformance of the industry, though, it does make one wonder whether that kind of growth is sustainable. If it's not, then there must logically be a point at which investors should jump off — though with job creation and factory expansion still ongoing, it would appear that there is indeed forthcoming upside to be enjoyed.

The bottom line

It would be nice to think that Canada Goose Holdings's upside is unlimited, but one does have to wonder whether this meteoric rise might come to an end at some point. With a pretty wide overvaluation, this is not a stock that can be recommend in good conscience to value investors new to the TSX index, though as Canada Goose Holdings expands its operations, bolder investors of a capital gains bent may want to jump on for continued upside.

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