Should You Buy Canada Goose (TSX:GOOS) Right Now?

Description

Retail investments, particularly the more traditional ones have evolved in recent years to become higher-risk holdings.

Part of the reason for that stems from the barrage of online retailers that are increasingly offering an easy and simple way for consumers to select, pay for and receive goods ordered online. That threat to traditional retailers is only going to grow in the coming years as new mobile standards and technology advance further to render those traditional retail methods partially obsolete.

I say partially because there are still some segments of the retail sector that are reliant on the physical selection process of goods. Food is but one example, but to a lesser extent, the same could also be said of high-end niche items, such as the clothing offered by **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS)

We've all seen the large winter jackets with the iconic badge that adorns an increasing number of commuters during the winter season, and with temperatures now falling well below freezing today it may be a good time to consider whether this luxury retailer belongs in your portfolio.

2 minutes with Canada Goose

Over the course of the past two years since its IPO, few could argue that Canada Goose hasn't done an exceptional job in expanding to new markets and growing its revenue base.

In terms of results, in the most recent quarter, the company realized strong growth across a number of different metrics; revenue saw an impressive 33.7% increase over the same quarter last year, while adjusted EBITDA for the quarter came in at $70.9 million, reflecting an impressive 53.1% improvement over the same period last year.

One of the ways in which Canada Goose has expanded its retail business so well over the course of the past few years has been through opening a series of flagship stores in prominent retail locations across the world, including Chicago, New York, London, Tokyo, Hong Kong, and Beijing.

In fact, the continuing stream of strong results from the company has also helped set expectations higher. For the remainder of the fiscal year, Canada Goose is now calling for guidance of annual revenue growth of 30%, growth of at least 40% for adjusted net income per diluted share, and adjusted EBITDA margin growth of at least 150 basis points when compared to 2018.

That's a tall order to fill, especially for an in-demand niche producer of $1000 parkas.

Here's the problem with Canada Goose

While there's definitely a place in the market for the warm, wintery and expensive gear that Canada Goose provides, the market is clearly beginning to change, and once squeezed, consumers will move to reduce their discretionary spending on luxury items, such as that $1000 jacket and $400 sweater.

Another key point to consider is Canada Goose's expansion plans, a significant chunk of which is based on growth in key markets such as China. Given the recent and growing spat between Canada and China, it wouldn't be outside the realm of possibility to see those growth expectations lowered in the near-term.

Finally, let's talk valuation. Canada Goose has been on fire lately, with the stock registering a 60% gain over the course of the trailing 12-month period leading to an expensive P/E of 73.17.

In other words, while Canada Goose has been a source of incredible growth for investors over the course of the past two years, that growth is unlikely to continue indefinitely, and unless you're already invested in the stock, there are other growth-options to consider that are far less expensive and risky investments than Canada Goose.

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Date
2025/07/08
Date Created
2019/01/21
Author
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