Wall Street Is at War Over Canada Goose Holdings Inc (TSX:GOOS)

Description

Wall Street can't seem to make up its mind about **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS).

In December, Susquehanna initiated coverage with a positive rating. Reportedly, it called Canada Goose a "best-in-class, luxury, aspirational cold-weather brand with significant growth potential ahead." Shortly after, **Toronto-Dominion Bank** upgraded shares to a "buy," citing its increased exposure to high-growth China.

After weeks of compounding optimism, some analysts started quarreling, not necessarily about the prospects of Canada Goose as a company, but rather the high valuation the market assigned it.

Wall Street is confused about Canada Goose stock

On January 24, **Wells Fargo & Co** downgraded shares. Their criticism was straightforward: shares are too pricey.

"While we remain confident on the trajectory of the GOOS brand and the fundamental story that has developed since their IPO in 2017," the firm wrote, "we feel the risk/reward today is not as compelling as it once was."

It's important to note that Wells Fargo wasn't souring on Canada Goose as a company. After years of growth and red-hot results, the firm was simply noting that the valuation had gotten ahead of itself. "We do view the fundamental story here as quite compelling," their report reiterated. "We simply feel that valuation is going to become more relevant as the brand matures."

Within 24 hours, Evercore Research hit back against Wells Fargo, stating that valuation concerns are overblown. Wall Street is clearly at odds over the future price direction of shares. What do the next few years really have in store for Canada Goose investors?

Long-term investors will be rewarded

Wall Street is correct in thinking Canada Goose as a company remains incredibly healthy. In 2018, it increased revenues by 46.4%. EBITDA margins also jumped from 20.1% to 25.2%, pushing earnings per share to $0.84, nearly 100% higher than the year before.

On basically any metric, Canada Goose is on fire. But what about the valuation? After all, the success of any investment is ultimately a function of the price you originally paid.

Today, shares trade at a premium 67 times earnings, and more than 10 times its trailing 12 months of sales. That’s a valuation typically reserved for high-growth tech companies with huge economies of scale. Clearly, the market is betting on continued rapid growth, margin expansion, and pricing power. There’s good reason to think the company can meet these lofty expectations.

According to a recent survey, 84% of previous Canada Goose customers responded that they would choose Canada Goose for their next premium outerwear purchase. Building a recurring revenue stream like this takes time considering it requires a beloved brand.

If the survey results represent anything close to actual buying behavior, Canada Goose is building up a huge lifetime value per customer with every purchase. If a single customer buys one coat in 2019, that could represent thousands of dollars in future revenue potential.

Additionally, the company has a huge runway of global growth yet to tap. For example, in 2018, Canadian sales hit $229 million while U.S. sales reached $184 million. The entire rest of the world combined only accounted for $178 million in sales.

Incredibly, 52 out of every thousand people in Canada own Canada Goose outerwear. If other regions like Japan, South Korea, the U.S., and China reached even one-third of this penetration, the company’s sales would triple overnight.

Don’t mind the bumpy ride

Sure, the valuation is pricey, but Canada Goose is in the early stages of building a global apparel powerhouse with incredible margins, brand recognition, and repeat buying behaviour. Sure, the market may be sensitive to short-term valuation concerns, but over a multi-year time horizon, Canada Goose looks like a steal at current prices.

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