Why Investors Are Giving Up on a Golden GOOS

Description

It’s been a wild ride for **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) investors over the past year.

Not only did the stock soar to new heights last summer, but after October the stock flew high again and almost got to that $100 share price!

But it wasn’t to be. After hitting $93 per share in late November, the stock dropped by almost half to the mid-$50s, and today is only up a few dollars to the $60 range.

Well, so what? It hit those numbers before, it can surely do it again… right? According to analysts: wrong.

China, China, China

What really did it in for this company was news last year that Chief Financial Officer of **Huawei** Meng Wanzhou had been arrested by Canadian officials. China almost immediately boycotted Canadian products, which just so happened to be right after Canada Goose had opened up a store in Beijing.

Meng’s extradition hearing is set for May 8 in Vancouver, and if things don’t go well, it could sour Canada-China relations for years to come.

Things weren’t all bad. The company managed to prove that sales were great in the Beijing store, and quarterly earnings proved successful too. Net income came in at $103.4 million, or $0.93 per diluted share, with revenue rising to $399.3 million.

Honeymoon’s over

With news like this, I think the honeymoon is over for this stock. Since its initial public offering (IPO) in 2017, the stock has been on a meteoric rise, shocking investors at how high it can go. That growth was partly due to its international expansion, opening store fronts in winter locations everywhere from London to New York.

But now the stock has remained pretty stable in the first few months, and frankly, with a recession on the horizon, I personally think it's going to stay that way, if not sink even lower. That's because it's not just Canada any more. The U.S. Internal Revenue Service recently reported an inverted yield, a signal that a recession could hit the country in the next year.

As my colleague Demetris Afxentiou recently pointed out, this isn't just a luxury product, it's a *seasonal* luxury product. Investors just aren't going to confident of its continued rise should a recession hit. It's far better to look to blue chip stocks at a time when the market is a bit shaky.

Bottom line

It may only be two points, but these are two solid points against Canada Goose that have analysts extremely worried. The drama with China is far from over, and should the hearing with Meng go poorly, the headlines for trade with China could send Canada Goose shares plummeting to new lows, rather than new highs.

On top of that, a recession puts all luxury item stocks on alert. With negative press already plaguing this company, it'll likely be the first stock that investors drop once a recession starts hitting the markets.

Then again, Canada Goose has proven analysts wrong before. There are still some out there that think while it's true it could drop, it could also easily hit that $100 mark by the end of the year due to its continued international expansion.

After all, this is still a relatively young company if you look simply at its IPO, yet it has exceed analysts' expectations at almost every earnings report. So if you want to bet on a consumer product like Canada Goose and support the Canadian economy, more power to you. I'd get in for the long haul.

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