Canada Goose Holdings Inc (TSX:GOOS): 3 Big Risks to Monitor

Description

In March I highlighted how **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS) stock could double in price. But just because it's possible doesn't mean that there won't be hurdles along the way.

Now trading at 48 times trailing earnings, the stock market is betting heavily that Canada Goose will execute. If the company stumbles, the valuation multiple will undoubtedly compress, potentially leading to 50% downside or more.

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While I continue to believe in the company's future, every Canada Goose investor will want to monitor these three risks.

Global expansion efforts

One of the biggest growth stories for Canada Goose lies is its opportunity to tap global markets. Impressively, 52 out of every 1,000 Canadians own a Canada Goose jacket. That's an unheard level of penetration, one that is unmatched by nearly any other high-end brand.

The company's penetration internationally, however, leaves plenty of room for growth.

In Japan and South Korea, for example, only 10 people in a thousand own a Canada Goose jacket. In the U.S. and Europe, the figure is only five to six people out of every thousand. In China, only 0.1% of the population owns a Canada Goose jacket.

Replicating its success in Canada won't be easy, however, especially with trade wars threatening Canada's exports. By the end of this year, expect to see improvements on the penetration rates listed above.

Customer retention rate

Another metric that Canada Goose touts is its "intent to repurchase" rate. According to the company, 84% of its customers intend to purchase another Canada Goose item the next time they're shopping for a high-end jacket.

As I wrote in March, "For every new customer, the company can expect a lifetime of purchases that total well into the thousands of dollars." That will only be true if the 84% customer retention rate holds as the company continues to expand.

Watch for this metric during the next annual earnings released. If it stays above 80%, that would be quite a feat. If the company fails to report the figure, the stock market may be overestimating the company's true brand power.

Valuation

Canada Goose stock is expensive, but for good reason.

This year EPS should come in around $1.30. Over the next five years, Wall Street expects EPS to grow by more than 25% per year. If that happens, EPS would surpass $4.00 per share by 2024.

If the current valuation multiples hold, Canada Goose stock could return more than 300% over the next few years. As the company grows larger, however, it will become more difficult to maintain this breakneck pace.

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Over the next couple of years, I would expect the stock's valuation of 48 times earnings to compress. It won't collapse completely as the underlying business still has plenty of room to run, but even a multiple of 30 times earnings, it's pricey given that it represents a 50% premium versus the market.

If the company executes in the years to come but its valuation multiple remains sky-high, it's likely time to take profits. Always keep in mind that investments pay off not only in the cash flows they produce, but also in the price that other investors are willing to pay.

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