Should You Buy Canada Goose (TSX:GOOS) on the Dip?

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) has fallen more than 6% in just the past month and finished last week at just over $65 a share. With the stock showing a lot of range activity this year and only briefly falling below $60, investors may be wondering whether now is a good time to buy Canada Goose.

Valuation may be reasonable given the growth prospects

By no means is the stock a value buy, trading at more than 50 times earnings and nearly 20 times book value at writing. Canada Goose has always traded at a big premium, as its strong growth and branding have made investors willing to shell out big money for the company's stock.

However, if we look at the company's price-to-earnings growth (PEG) ratio, it might not be that bad of a buy. With the company's expected PEG ratio coming in at 1.57 (based on expectations for the next five years), it suggests that the stock could be a good buy relative to its growth, even with the high price-to-earnings multiple.

Momentum could send it higher on a strong Q4 result

Canada Goose has been one of the hottest stocks on the TSX that last fiscal year saw sales growth of nearly 50% year over year. It has continued to witness such growth levels during the current fiscal year. With the company expected to release its year-end results sometime next month, we could see the stock get a boost if it finishes the year strong.

Back in Q3, Canada Goose not only saw strong sales growth, but its margins were also improved thanks to a flourishing direct-to-consumer market that has helped the company minimize cost of sales, which made the decision to expand its retail presence a bit puzzling. While the company will likely grow sales, it will probably do so at a lower margin.

Nonetheless, if Canada Goose has another good quarter with strong margins, there's no telling how high the stock could go. We saw it flirt with $100 last year, and if not for political issues around China giving investors a bit of a scare, it likely would have reached the plateau. Alas, it's been stuck in a range this year, unable to generate much support above $70 for a prolonged period.

However, given the strength of the brand and the success it has had, the one thing I've learned is not to underestimate the success and popularity of Canada Goose. We've seen a lot of demand for the jackets outside Canada, which has done wonders for sales. That's why I could continue to see the stock getting stronger, as it'll likely finish with another strong quarter to wrap up the year.

Bottom line

You'll be paying a premium to own Canada Goose stock, no question about it. And if the company can continue to perform at the high level that it has over the years, you could end up with some fantastic returns as well. If there's one thing that can get investors excited about a stock, it's a good story. And being handcrafted and focused on quality with a strong Canadian image, Canada Goose appears to have all the ingredients necessary to generate a lot of hype.

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