Should You Buy Canada Goose (TSX:GOOS) Stock Ahead of Earnings?

Description

In fewer than 30 days, **Canada Goose** (TSX:GOOS)(NYSE:GOOS) is set to release its quarterly earnings report. This could be a make-or-break quarter.

Following its IPO in 2017, Canada Goose stock rocketed higher, rising nearly 300% in just 15 months. Over the last 12 months, however, shares have actually *lost* value.

Still pegged with a premium valuation of more than 50 times trailing earnings, investors are now wondering if Canada Goose is still the high-growth powerhouse it used to be. Several exogenous factors are putting that reputation in peril.

Is now your chance to buy discounted Canada Goose stock before the company reports earnings on June 21?

Changing the risk balance

Canada Goose is still growing quickly enough to deserve a premium valuation.

Last quarter, sales increased by 50% to around $400 million. Adjusted EBITDA rose by 60% to around $150 million. Profitability also improved, with gross margins jumping to 64.4% from 63.6% the year before.

For full year 2019, management anticipates revenue to grow by at least 30%, with EPS growth of at least 40%.

No one is doubting Canada Goose's ability to grow. Trade wars, however, have put a damper on the market's expectations. Specifically, more investors are worried about the company's ability to grow abroad.

Already, more than 50 out of every 1,000 Canadians own a Canada Goose jacket. That's impressive, but increasing that penetration rate further will be tough. International expansion is certainly the lowerhanging fruit.

“In Japan and South Korea,” I wrote recently, “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.”

Unfortunately, after Canada’s arrest of Huawei CFO Sabrina Meng, the South China *Morning Post* revealed that protests were already in motion for Canadian products.

“Canada Goose, famous for its down parkas, appears to be the first casualty of the diplomatic row over Meng: calls for a boycott spread quickly on the social media platform Weibo and were echoed by state-run media,” it reported.

If Canada Goose can’t capitalize on big opportunities like China, its premium valuation could be erased quickly.

Watch these two numbers

For the next earnings release, expect investors to pay the usual attention to revenue and earnings growth. Guidance, however, will be even more important, especially in terms of two metrics: international traction and gross margins.

When it comes to revenue growth, pay close attention to how much is coming from demand in high-growth areas like China. Expect analysts to pepper management with questions regarding the geographic breakdown.

If management indicates trouble here, the stock could react negatively.

When it comes to gross margins, pay close attention to both the absolute level and management’s guidance.

Currently, gross margins are above 60%. That’s up from 40% in 2015. If competitors are any indication, these numbers could fall over time. For example, **VF Corp** has gross margins closer to 50%.

If gross margins look pressured and management isn’t confident that it’s simply a one-off event, investors could rework their expectations for long-term profit growth, sending the stock downward.

What should you do?

The upcoming quarter should prove pivotal for Canada Goose sentiment. Investors will be critical if certain numbers are amiss.

If you’re worried about pricey markets and rising global tensions, this isn’t the stock for you.

If you’re a buyer, make sure you’re confident in the long-term story, as any short-term headwinds next month could result in an opportune time to accumulate more shares.

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