Is This Top Growth Stock Now a Super Bargain?

Description

Is this a gift from the market? **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) stock has fallen a whopping 27% as of writing after reporting its fiscal fourth-quarter results, which ended on March 31.

Despite falling this much, GOOS stock has still delivered *immensely* outperforming returns of about 46% per year since its initial public offering in 2017 compared to market returns of less than 10% per year.

The huge cut in the stock price is the market's reaction to the company's slower-growth outlook. Q4 results were "meh" and full-year results were fine.

Canada Goose's Q4 results

Compared to the same quarter in the prior year, revenue increased by 25% to $156.2 million against cost of sales, which only rose 15%. Unfortunately, selling, general, and administrative expenses, a major non-production cost, climbed 40% to $85 million, and operating margin fell 4.4% to 7.5%.

This resulted in operating income that fell 21% to $11.7 million. Income tax recovery boosted net income, which rose 11% and totaled $9 million. On a per-share basis, adjusted earnings were flat. Additionally, adjusted EBITDA fell 6.4% to $20.4 million, and adjusted EBITDA margin fell to 13.1% from 17.4%.

Canada Goose's full-year results

Looking at Canada Goose's full-year results gives a bigger picture of the company's health.

Compared to the prior year, revenue increased by 40% to $830.5 million against cost of sales that only rose 29%. Unfortunately, selling, general, and administrative expenses climbed 51% to $302.1 million, but operating margin held its ground by rising 30 basis points to 23.7%.

Thankfully, operating income still rose 42% to $196.7 million. And net income came in at $143.6 million, which was 49% higher. Adjusted earnings per share (EPS) climbed 62% to $1.36. Additionally, adjusted EBITDA increased 54% to $229.6 million, and the adjusted EBITDA margin expanded to 27.6% from 25.2%.

Canada Goose's balance sheet was strong. At the end of the fiscal year, GOOS had cash of $20.4 million on the balance sheet versus $11.9 million a year ago. Its net debt to EBITDA was 0.53, so the company is not overly leveraged at all.

Market concerns

The huge drawdown in the growth stock is due to multiples contraction based on its outlook of revenue growth and adjusted EPS growth of more than 20% and 25%, respectively, on average over the next three years. These are still very high growth but a far cry from the growth of 40% and 62%, respectively, that it just reported for last year.

Foolish takeaway

GOOS trades at just under 36 times fiscal 2019 earnings at $48 and change per share. Based on Canada Goose's guidance of more than 20% adjusted earnings-per-share growth over the next three years, the stock is trading at a maximum PEG ratio of 1.8, which is not exactly cheap.

However, it's also difficult to find companies growing earnings at 20% per year. So, investors need to decide if they should go for high risk and high reward in the growth name. If you do go for it, sizing the position properly in your presumably diversified portfolio is key.

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