Will U.S./China Trade Tensions Send Canada Goose (TSX:GOOS) Stock Even Lower?

Description

It's been over two weeks since the U.S./China trade deal collapsed, and markets are still reeling from the carnage.

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After suffering its worst day of the year on Wednesday, the TSX edged lower on Thursday, signalling that investors are getting wary of stocks in this jittery trade environment. Although the major spat is between the U.S. and China, all markets are being affected; Canada in particular is caught in the cross-hairs thanks to its involvement in the Huawei/Meng Wanzhou fiasco.

For months, Canada's involvement in the detention of Huawei CFO Meng Wanzhou has been a concern for market commentators, who worried that China may retaliate with tariffs or boycotts of Canadian goods. The U.S. added fuel to the fire recently by putting Huawei on a trade blacklist, prompting threats of retaliation from China.

It's in this tense environment that **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) finds itself. Ever since the arrest of Meng Wanzhou, commentators have worried about potential Chinese boycotts hitting GOOS in the pocketbook. Now, with Huawei bans in the discussion and the U.S. & China at an impasse, the company may find itself on thin ice. To understand why that could be the case, let's look at Canada Goose's recent earnings.

Canada Goose's revenue miss

Recently, Canada Goose released an earnings report that showed a slight revenue miss: $156 million to the expected $159 million. That tiny miss triggered a massive selloff, with GOOS shares down 30% in just three days of trading. Although a 1.5% miss might not sound like it would justify a 30% crash, the company also revised its long-term outlook downward, expecting 20% year-over-year growth for 2020 (when in the past it had been growing at 40-50% a year).

Why U.S./China trade tensions could make the situation worse

Canada Goose has already said that its revenue going forward will be lower than previously expected. Making matters worse is the possibility that a U.S./China trade war could hit the company in the pocketbook and send shares even lower.

China is (or used to be) Canada Goose's ace in the hole. Although the company's largest market is North America, China is where the growth happens: in North America, revenue was up just 25% in 2019, whereas global (mainly Chinese) sales jumped 60%. Put simply, if Canada Goose ever wants to get back to the 40% year-over-year revenue growth that it had previously been posting and which its stock price was based on, it will need China.

The problem is that the ongoing trade war threatens all that. China has already threatened a number of trade restrictions on the U.S., including rare earth metals, which the world depends on for smartphone manufacturing. It's not inconceivable that Canada could be targeted by similar tariffs and trade restrictions, given its involvement in Meng Wanzhou's detention, a huge flash point in the dispute between the U.S. and China. Were China to go ahead with that, Canada Goose would be a vulnerable target, as one of the most popular Canadian brands in that country.

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