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

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) recently had its toughest day on the stock market since its IPO. The firm's share price declined by about 30% after it fell to deliver earnings on par with consensus estimates and signaled slower earnings growth via its guidance.

The Toronto-based clothing manufacturer has been on a tear in recent years, but investors now seem to think there is little left in the tank to fuel Canada Goose's growth. It is, however, important to remember the following investing principle: the stock market is driven by emotions in the short run, but it is driven by fundamentals in the long run.

Has Canada Goose's investing thesis changed?

What has driven Canada Goose's success?

Canada Goose is a manufacturer of winter clothing. The firm's operations span North America and extend to Western Europe and Asia. Canada Goose's secret is its quality products: its winter jackets are rumoured to be some of the best on the market. Late last year, the company decided to put its money where its mouth is by launching "cold rooms" in some of its stores. These rooms, in which the temperature is set at -27 degrees Fahrenheit, are meant for customers to test the firm's jackets in real-world conditions.

The best doesn't come cheap, though, with many of Canada Goose's products costing a small fortune. Still, the firm has been rising in popularity in recent years. The clothing company operates through two segments: wholesale and direct to consumer (DTC). Through its wholesale segment, the company sells to retail partners and distributors in various countries, while the DTC segment is comprised of sales through its e-commerce sites and retail stores.

Since 2015, Canada Goose's revenues have grown by more than 280%, and its net income has soared by almost 900%. This growth was driven primarily by its DTC segment; no wonder Canada Goose is looking to increase the number of e-commerce stores and brick-and-mortar stores in this segment. Since its IPO in 2017, the company's share price has grown by almost 300%.

Risk factors

Canada Goose is susceptible to consumer perception. About a month ago, the firm's stock fell by 8% after a clip featuring American comedian Bill Maher criticizing the company's treatment of animals made the rounds on social media. Canada Goose uses coyotes and geese to manufacture some of its winter clothes, and organizations such as PETA (People for the Ethical Treatment of Animals) have often railed against it.

Geopolitical factors have also had a negative impact on the company's stock. Canada Goose's share price declined by more than 30% last December in part due to concerns over boycotts in China (tied to Canada's arrest of Huawei's CEO). While these incidents haven't had an impact on the clothing company's profitability, if concerns about its treatment of animals grow, it could lead to widespread boycotts, which could then impact its bottom line.

Should you buy?

Canada Goose's recent earnings miss may have been a warning sign. The firm cutting its growth rate in half and forecasting "materially larger losses" in its current quarter did not bode well with investors. Still, the clothing company has been spending exorbitant sums to grow its DTC segment by opening more e-commerce and brick-and-mortar stores. This is undoubtedly a good investment that will pay rich dividends in the future.

Even after its share price declined by some 30%, Canada Goose's forward price-to-earnings ratio stands at 27.26 (at writing), and its price-to-earnings growth is 1.27. Coupled with the various potential risk factors the firm faces, it is understandable why some investors might feel that the company's luck has run out. However, the firm's long-term thesis — if not unscathed — seems to still be solid. Thus, now may be a good time to jump aboard this ship.

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