This Stock Just Showed What Investors Think of Luxury Retail Right Now

Description

Hitting a 52-week low during a truly terrible week for the markets is unlikely to make a stock look like a tempting buy, no matter how much an investor likes a bargain. Strong expected growth would be the one reason to buy a suddenly devalued stock, while a solid market presence would be another sensible rationale behind investing.

However, while **Canada Goose** (TSX:GOOS)(NYSE:GOOS) technically satisfies both of these criteria, there are problems here that undermine the way it does so in both cases. Luxury retail stocks are suffering as investors face down the potential of a recession; however, let's take a look at why else the stratospheric growth that has made this particular retailer so appealing may now be on the retreat.

The market is not Canada Goose's friend right now

Many investors make decisions based on emotion; it's not an accident that CNN named its Fear and Greed Index the way it did, for example (which, by the way, is pointed at "Extreme Fear" at the moment). Another camp of investors is more heavily data-focused, calculating every peak and trough, with betas and market ratios informing the risk and upside inherent in any transaction.

The data does not favour Canada Goose at the moment: never mind a high P/B of 12.57 and trailing 12-month P/E of 37.44 times earnings, (both of which signify clear overvaluation), or even the fact that the luxury clothing retailer lost 29.19% in the last five days at the time of writing. The real issue here isn't a plunging share price or overheated market ratios, but rather that Canada Goose's rising overheads might in fact be positively correlated with that sudden drop.

Did Canada Goose reach too far in expanding its retail operations?

While recent sales figures were a letdown, as were pretax profits, overheads shot up by 40% compared to this time last year. The real worry here is that all of those administrative and sales-related costs will only increase as Canada Goose expands its high street presence, even withstanding a further rise in these costs. As with any outperforming stock, high expectations can lead to deep disappointment.

Though an average analyst rating of a moderate buy may go some way toward tempting investors to take a position in Canada Goose, an expected loss of earnings this quarter makes for a big red flag. While analysts are pegging Canada Goose for a strong next quarter, and with an earnings growth rate of 23.88% expected by the end of this fiscal year, a miss in either of these areas could send the share price tumbling.

The bottom line

Canada Goose has been overvalued for some time now, and while it has been regularly cropping up in must-buy lists, its poor value for money has remained a red flag. The sudden plunge of Canada Goose is an illustrative example of how far luxury retailers have fallen out of favour with investors. However, an optimistic take on the matter would see subsequent quarters meeting expectations, with steadfast stockholders being rewarded in the long term.

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