High-Risk Zone: A Top Stock to Avoid As Trade Tensions Intensify

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) is a fast-rising Canadian growth sensation that I've been incredibly bullish on since 2017.

The firm has been growing ridiculously fast since it hit the public markets, its CEO Dani Reiss could do no wrong, and with the Chinese growth opportunity set to unlock further high double-digit growth numbers, Canada Goose was the talk of the town not only on Bay Street, but Wall Street as well. Canada Goose was seen as a top pick that'd continue laying golden eggs for investors for many years, if not decades to come.

Over the past year, the soaring Goose has begun losing its stride.

More recently, the stock has been shot down by investors following the release of the firm's Q4 fiscal 2019 results. Earnings weren't horrible by any stretch of the imagination ($0.09 EPS versus the $0.05 consensus), but when management initiated frail guidance for fiscal 2020, many investors began throwing in the towel, causing shares to plunge around 31% in a single trading session.

Although I do believe that Canada Goose is a wonderful business that's in the early innings of an ambitious global growth story, the luxury outerwear maker is still extremely cyclical and thus vulnerable to amplified downside in the event of a global economic slowdown. To make matters worse, the Goose's Chinese growth story could be in jeopardy amid rising geopolitical tensions as I've mentioned in prior pieces.

A Chinese slowdown is one thing, but a Chinese boycott of foreign brands like Canada Goose could have further disastrous implications on the stock.

Sure, shares have now plunged over 50% from peak to trough, but as one of those "pie-in-the-sky" growth stocks, the stock still isn't exactly what you'd consider cheap at 35.6 times trailing earnings and 6.1 times sales. So, don't think for a second that the stock can't halve again because it easily could should worse comes to worst.

Foolish takeaway on Canada Goose

Canada Goose is a hard stock to hate because of its exceptional management team the attractive long-term story. The bar has now been lowered with its latest guidance, and the stock could be due for a massive upside correction should the U.S. and China hit a trade deal. So, at these depths, I do see an attractive risk-reward trade-off for extremely long-term thinkers with a high tolerance for pain.

In the meantime, however, the stock should continue to get clobbered as geopolitical tensions continue to mount. And if a Canada Goose boycott comes to fruition in China, the Goose may have to pull the brakes on its Chinese expedition and a massive chunk of its stock's growth premium could go flying out the window.

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