3 Risks You Need to Monitor for Canada Goose (TSX:GOOS) Stock

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) investors were once making a ton of money; from 2017 to 2018, shares quadrupled.

The run ended on May 29, when shares plummeted by more than 30%. The stock still hasn't recovered.

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If you're thinking of purchasing this millionaire-maker stock on the cheap, there are a few things you need to know. Pay close attention to the following risks that Canada Goose investors will face this year.

Sales growth is flagging

Over the last three years, Canada Goose has posted an average revenue growth rate of 40%. That's the definition of a high growth stock.

Breakneck sales growth resulted in a premium valuation. Since its IPO, the stock has consistently traded between 50 and 100 times trailing earnings.

On May 29, slowing direct-to-consumer sales forced management to reset expectations for future growth. Looking ahead, the company now anticipates sales growth of "at least 20%." That's still impressive, but likely doesn't warrant a nosebleed valuation multiple.

"We believe an outlook for slowing momentum in GOOS' Direct-to-Consumer channel warrants a lower P/E multiple," warned **Bank of America Corp** analysts. That's exactly what happened.

Currently, shares trade at just 37 times trailing earnings. The multiple is still a hefty premium versus the market at large, but it's representative of diminishing prospects.

If annual sales growth is sustained at 20% or above over the next few years, the stock price today seems justified. If growth continues to level off, shares could be in trouble.

Trade wars are troubling

Apparel stocks have been crushed due to heightened tariff risks. Ongoing trade spats with the U.S., Canada, and China are threatening the industry's supply chain and biggest source of demand.

Most apparel makers source materials and labour from China. It can take weeks or even months to shift production away from China, not to mention the higher costs incurred from manufacturing elsewhere.

For Canada Goose, the biggest risk is actually demand.

Last year, the company reported sales growth across every geographic region. For example, last quarter, sales increased 28% in Canada, 36% in the U.S., and 61% throughout the rest of the world. Those are all impressive figures, but it's clear that the biggest opportunities lie outside of the U.S.

China is perhaps the company's greatest source of growth. Thus far, Chinese consumers have been scrambling to get their hands on Canada Goose products.

"Large crowds have been drawn to Canada Goose's new outdoor wear store in downtown Beijing, its first in mainland China, since its opening on Friday, despite sub-zero temperatures and a chill in China's relations with Canada," reported *Reuters*.

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So far, demand has materialized as expected. If trade wars ramp, however, the company could lose its most valuable growth opportunity overnight.

Will profitability dip?

When facing sales pressure, many retailers opt to cut prices. If Canada Goose takes this route, results could be mixed.

Sure, sales growth may perk up, but margins are one of the most attractive characteristics of the company. Gross margins last quarter were 66%, up from 63% the year before. The sector average is typically between 30% and 40%.

Due to its incredible pricing power and brand loyalty, Canada Goose has simply been able to charge more than its competitors for similar products. If this part of the story changes, it could put a big dent in the stock price.

Pay close attention to small variations in pricing and gross margins over the next few quarters.

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