Canada Goose (TSX:GOOS) Crashed Hard: Is Now the Time to Buy?

Description

Canada's iconic premium apparel manufacturer **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) crashed hard in late May, falling by 45.0%. The steep drop was attributed to management's lower revenue forecast in the coming fiscal year. While this is unfortunate, it's also an opportunity to buy a dependable stock.

Investors' disappointment was understandable. The reported revenue growth in the fiscal fourth quarter was the company's lowest revenue growth in eight quarters. Although revenue climbed 25% to $156.2 million, it fell short of consensus estimates. Management also expects "materially larger losses" in the first and second quarters.

Conservative stance

Canada Goose has always maintained a conservative stance whenever the company reports revenue growth. Recalling 2017 and 2018, the pattern is evident. After reporting revenue growth of 38.8% in June of 2017, the company lowered annual revenue growth projection.

It was the same scenario in June the following year. When the company reported 46.4% in total revenue growth for the fiscal year, the Canadian retailer brought down revenue growth to 20%, which happened again this year.

Revenue is expected to rise 40.5% in fiscal 2019, yet the average annual sales growth was pegged to at least 20% in the next three years. Obviously, Canada Goose is downplaying growth potentials and is acting conservatively. The trade war fears must have bitten, as the business in China could suffer.

Growth drivers

Canada Goose is supposed to undertake the most aggressive expansion in 2020. The company is preparing to open new stores, strengthen international e-commerce business and implement vertical integration. The company will also shift from wholesale channels and utilize direct to consumer (DTC) channels more.

Thus, the business outlook is even better in fiscal 2020, with additional new retail stores and stronger international growth. Optimizing the DTC channels will result in higher margins as well as the better the lifetime value of the customer.

The business in China is beginning to heat up until the trade dispute escalated. During the grand opening of Canada Goose' flagship store in Beijing last December, customers endured the winter-like weather to line up. It's still unsure if the call for a boycott will gravely hurt sales in the huge Chinese market.

Recovery is (almost) certain

The sharp drop in May was shocking and investors are worried about the revised guidance. However, it's too early to strike out Canada Goose from my list of reliable growth stocks. The high-end brand is facing a serious test because of the tempest brought by the trade war.

Canada Goose might not be able to duplicate the double growth rate last year. We are in trying times, but the new-age retail brand is poised for continued growth and profitability if things return to normal.

An authentic brand with strong digital offerings run by a competent management team will not fall easily. There will be risks, such as the seasonality of sales, but the company has succeeded with astute inventory planning. If you ask me, now is the time to buy.

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Author
cliew