My Top Stock to Buy in July Has 100% Upside

Description

After second-quarter earnings were released, many stocks surged by 20% or more. Others dropped considerably based off weak results or falling expectations.

On May 29, **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) stock fell by one-third after investors reset their estimates for future growth. Now is your chance to scoop up shares of this market leader at a big discount.

Here's how to take advantage and double your money.

Everything is good

Over the past four years, Canada Goose has grown earnings by 30-50% per year. Analysts expected profits to continue growing by more than 30% annually.

Last quarter, the momentum shifted from great to just good.

Revenue hit $156 million, up 25% year over year. Growth was experienced in every geography. Sales popped by 28% in Canada, 36% in the U.S., and 61% everywhere else. Gross margins improved from 63% a year ago to nearly 66%.

Again, the company's growth and financial health remain strong. The dip in stock price merely reflected a reset in the long-term growth forecast from around 35% per year to 25% per year.

Valuation is great

While the business fundamentals have shifted from great to good, the valuation has taken the reverse approach.

For years, the stock traded at a lofty 50 times earnings. At times, the premium rose to 100 times earnings.

After the drop, shares trade at just 29 times forward earnings. Based on lowered expectations, the stock is valued at just 24 times 2021 earnings. **Goldman Sachs** actually upgraded shares to “buy” based on the improved valuation.

Getting a good company for a great valuation is a great way to mint money. Here’s how it will work.

Management is now guiding for long-term EPS growth of “at least” 25%. Analysts are a bit more bearish, expecting 21% EPS growth over the next five years.

Let’s assume an ultra-conservative growth rate of 20%. Within five years, EPS would easily surpass $3.50 per share. Based on the current price, shares would trade at 14 times earnings.

If this growth rate is sustained, shares would undoubtedly trade at a premium to the market. They may not fetch the 50 times earnings valuation of the past, but 28 times earnings would be a reasonable bet.

Assuming $3.50 EPS and a valuation of 28 times earnings, the share price would hit $98 within five years, representing 100% upside.

This bet takes time and is only suitable for patient, long-term investors. Don’t expect returns overnight. If you’re a buy-and-hold investor, however, this is one of the greatest steals on the market today.

Because earnings estimates are depressed coming off a disappointing quarter, there’s a good chance our assumptions are overly conservative.

If management’s 25% EPS growth is achieved, earnings would actually hit $4.13 per share. Using the same 28 times earnings multiple, the stock price would reach $116 within five years. That’s nearly 140% in upside.

This is your best bet this month, just be sure to stick around long enough to enjoy the ride.

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