What's Wrong With Canada Goose (TSX:GOOS) Stock?

Description

Back in 2017, **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS) was an incredible investment. You could have bought shares for just $23 apiece. By the end of 2018, they were worth more than $90.

Then momentum changed. Over the last 12 months, the stock has lost 30% of its value. The **S&P/TSX Composite Index** is roughly flat over the same period. Canada Goose went from all-star to loser in a matter of months. If you understand why this shift occurred, you can make big money by betting on a turnaround.

Great expectations

The stock market values each stock based on *expectations*, not current reality. If a stock is expected to grow by 30% per year for several years, investors will price the stock accordingly. If expectations fall, the stock price will fall as well. The business isn't necessarily in trouble, it's just that expectations have changed.

This is exactly what happened with Canada Goose. In 2017, sales grew by 35%. In 2018, sales surged by 50%. In 2019, annual sales are on pace for 30% growth or more. This impressive history caused analysts and investors to anticipate 30% annual growth for several years into the future.

On May 29, management revealed its revised expectations for revenue growth. It now expects to grow sales by "at least" 20% per year. That's a sizable revision versus 30% per year, and the stock dropped by more than a third in response. The share price has rebounded a bit, but they're still 25% off their all-time highs.

The problem with Canada Goose has been a reset of expectations. Fortunately, this has provided a huge buying opportunity.

How to capitalize

Canada Goose used to be an expensive stock, trading at a premium valuation of 50-100 times trailing earnings. After the drop, shares trade at just 27 times 2021 earnings. That's still a premium versus the market, but remember that this isn't a broken story—sales and profits should continue to compound at 20% per year until at least 2024.

Using conservative assumptions, there could be 100% upside or more. Over the next four quarters, analysts anticipate the company earning a total of $1.69 per share. In line with management, they expect earnings to grow by roughly 22% annually over the next five years.

Let's assume the low end of the range and grow earnings by just 20% per year. In five years, EPS would reach $4.20. Assuming a discounted valuation of 25 times earnings, the stock would be worth $105, nearly double the current share price.

It will take patience, but this really is a great opportunity to buy Canada Goose stock. Even using overly-conservative assumptions, the stock price should outperform the **S&P/TSX Composite Index** over the long run.

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