Do You Need to Add Canada Goose (TSX:GOOS) to Your Portfolio?

Description

Shares of **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) went public back in March 2017. The stock has more than doubled in the last two years. However, it has fallen 31% in the last 12 months and has been trading flat since the start of 2019. Canada Goose shares have been extremely volatile. It fell from $92.18 per share in November 2018 to $59.68 in December 2018, driven by overall market weakness. While the stock managed to stage a comeback as it rose to $78 per share in February this year, this upward rally was short lived.

So, is Canada Goose a good buy at current levels? Canada Goose Holdings has managed to grow revenue from $404 million in fiscal 2017 to $831 million in 2019, which means it has more than doubled sales. Sales are now estimated to grow to $1.036 billion in 2020, $1.25 billion in 2021, and $1.45 billion in 2022 — an annual growth rate of 20.5% over the next three years.

Its earnings have risen at an impressive rate of 77.8% annually in the last five years. Analysts now expect earnings to rise 24.3% in 2020, 24.3% in 2021, and at annual rate of 21.5% in the next five years. Its stellar revenue and earnings growth drove Canada Goose's stock higher.

Cyclical nature might make investors wary

Canada Goose is famous for its expensive winter jackets. However, Canada Goose, like most retail companies, is cyclical in nature. This means sales generally pile up in certain quarters and are tepid during the off season. Canada Goose stock slumped close to 35% in May 2019, as fiscal fourth-quarter results and guidance were not in line with analyst estimates.

The company was also hit by scandals and was accused of animal mistreatment. Investors need to know that the company's growth story remains intact. While sales growth between 20% and 25% over the next three years is way below its historical growth, there are significant revenue drivers.

Large addressable market

Canada Goose is just starting to expand in major international markets. It has 11 retail stores, and the firm is expected to launch eight new ones in the United States, Canada, China, and Italy. China is, in fact, the largest market for luxury goods, and Canada Goose is set to benefit hugely if it gets price points right in this market.

Canada Goose will soon launch a digital concept store in Toronto. There is also opportunity to expand in the high-growth e-commerce segment. While Canada Goose will be impacted during a recession and economic downturns, it has huge potential for international expansion, which will drive sales higher.

We can see that the stock decline in May was more than necessary. Canada Goose was growing sales at 40% annually between 2017 and 2019. With a slowdown expected, investors have priced the stock accordingly. Yes, revenue growth is decelerating, but it continues to remain robust at 20% year over year. The management continues to remain positive about long-term revenue growth.

The recent pullback provides a terrific opportunity for investors. The stock was trading at premium valuations in November last year. While still expensive, Canada Goose is able to support its lofty valuation with a sustainable growth rate.

Analysts remain optimistic, as they have a 12-month average target price of $69.65, indicating an upside potential of 21% from its current price.

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Date
2025/08/18
Date Created
2019/07/24
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