



Will Issues With China Keep Canada Goose (TSX:GOOS) Stock Down?

Description

Canada Goose Holdings ([TSX:GOOS](#))([NYSE:GOOS](#)) had a very strong 2018, but things just haven't been the same this year. Even before the end of last year, right when the issues surrounding Huawei's CFO [came to light](#), the stock has failed to generate the same momentum that it once had.

As close as it was to \$100 a share back then, it hasn't been able to get nearly as high ever since. While there's no doubt that it was overvalued before, it's clear that the issues surrounding China and Canada have weighed on the stock. It's a good example of how factors outside the company's control can have a profound effect on a stock.

No longer just a Huawei issue

The ongoing issues in Hong Kong have created yet another problem for China-Canada relations. In support of what it called "fundamental freedoms, including the right of peaceful assembly," Canada took a joint stance with the European Union, which didn't sit well with the Chinese government. In a recent statement by the Chinese government, it called on Canada to "immediately stop meddling in Hong Kong affairs and China's internal affairs."

From a geopolitical standpoint, things between China and Canada are only getting worse, not better. For companies like Canada Goose that have operations in China and that benefit from demand for their products in that part of the world, it exposes the company to risk. Amid the Huawei incident, there were calls for a boycott of Canadian Goose products as well as those from other Canadian brands.

While we haven't seen any similar actions taken yet, it's certainly a possible consequence — one that could have a negative impact on the stock.

Should investors be worried?

Unlike when the stock was trading at over \$90 when the Huawei scandal broke, Canada Goose may seem less vulnerable today — no longer trading at the astronomical valuations that it was before. The

stock is still a bit expensive, trading at more than 40 times its earnings, but it's a bit more reasonable, especially when you consider the stock's strong growth.

However, a lower valuation is not sufficient reason to keep the stock from falling. Over the past 12 months, Canada Goose's stock has declined by more than 30%, and even though we did see some improvement in the company's [most recent earnings](#), it was not good enough to stop the bleeding. The stock's volatility makes it difficult to predict where it might go from here on out and there's definitely a risk that it could continue to go lower.

Ultimately, it's hard to see investors get bullish on this stock again without Canada-Chinese relations improving significantly from where they are now. The problem is that may not change anytime soon, and that could make Canada Goose a very risky stock to hold today.

Despite strong sales numbers and a lot of potential growth, it may be a safer approach for investors to hold off on buying Canada Goose and wait on the sidelines until the issues surrounding the two countries get resolved.

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