Aurora Cannabis (TSX:ACB) vs. Canada Goose Holdings (TSX:GOOS): Earnings Guidance Misses Make 1 Stock a Buy

Description

Premium apparel manufacturer **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) stock price fell 16% within days after an earnings release in August when management didn't update its revenue guidance for fiscal 2020, even after reporting staggering first-quarter growth numbers.

On a similar note relating to management earnings guidance, cannabis growth stock **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) tanked significantly in September after management surprisingly missed its own revenue guidance, which it had "safely" issued a good 36 days after quarter close. This was a punishable offence on the market.

Aurora also missed its earlier guidance for positive adjusted EBITDA for the quarter ended in June this year.

Significance of revenue guidance

Executives are key corporate insiders who are known to possess material insider information pertaining to corporate financial performance, and investors have to take any earnings guidance's from these elite and privileged teams very seriously.

But management can make too aggressive or too conservative earnings forecasts and give revenue guidance that can be wide off the mark, more so if the company has just entered new markets or launched new products.

The two companies are both high-growth companies, which have recently ventured into new geographical and/or product markets in their respective marijuana and premium apparel trades, and management teams are yet to fully understand the new markets and refine their forecasting precision.

That said, although Aurora is still a youthful market leader, I still wonder how executives could miss quarterly revenue by over 4% when the guidance was given after quarter close. Probably internal auditors disallowed revenue recognition on some sales that were yet to fully comply with recognition principles and deferred the revenue to the next quarter. Adjusted EBITDA is more complex to forecast than revenue.

If Aurora management could miss revenue guidance from a point of knowledge, how much more precise can a busy Canada Goose executive team be after unexpected demand surges in Asia and Europe and surprise growth from traditional markets during the past quarter?

GOOS's guidance could miss by a wide mark, and that's great!

Canada Goose has made forays into direct retail markets and announced new product launches recently, and its seemingly conservative management could easily underestimate the business's growth potential, just like it did last year.

The company reported a staggering 59% year-over-year revenue growth for the first quarter of fiscal 2020 as direct-to-customer (DTC) sales increased by 50% and wholesale revenue surged nearly 69% year over year.

But management chose to maintain their earlier annual revenue growth guidance (given in May 2019) of at least 20% for fiscal 2020, with wholesale revenue growth expected in the high single digits for the year.

This was alarming, especially considering the just released strong growth rates for the first quarter, which is historically a lousy quarter due to seasonality, but new markets in Europe and the rest of the world still reported nearly 80% growth, with Asia sales tripling.

Management resisted the strong urge to increase its annual sales guidance after a strong start to the year, and the share price tanked as low as 16% within days after earnings, as investors feared significant sales weaknesses in future quarters if annual sales are to fall in line with management guidance.

Whether this is extreme conservatism or poor revenue forecasting, the company is likely to surpass management's revenue guidance for fiscal 2020 by a very wide margin as it did for fiscal 2019 where total sales grew 40% and wholesale revenue grew 18.7% year over year against a guidance for a 20% and "mid-single-digit" growth, respectively.

This makes the stock a great buy with significant recovery prospects back to all-time highs, as subsequent quarterly results beat management estimates thoroughly in the next three quarterly reports.

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Date
2025/08/26
Date Created
2019/09/24
Author
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