Can Canada Goose (TSX:GOOS) Stock Double Your Money?

Description

It's no secret that I'm a big fan of **Canada Goose** (TSX:GOOS)(NYSE:GOOS). I've previously written about the company's outstanding leadership team, strong balance sheet, excellent marketing, and tight control of its in-demand, high-quality products.

After its IPO, Canada Goose quickly became a star of the TSX, with its stock rising from its IPO price of $17 per share to $45 within the first year. Although the company was not the largest IPO of 2017 — that honour went to **Kinder Morgan Canada**, which raised $1.75 billion — Canada Goose was the top-performing IPO of the year.

But lately, the stock has fallen out of favour with investors. Along with other stocks in late 2018, Canada Goose started to tumble. However, unlike other stocks, Canada Goose has not yet recovered.

Since the stock price has fallen so hard and so quickly, can new investors double their money?

Strong balance sheet

Canada Goose maintains a strong balance sheet. The company doubled its revenue from 2017 to 2019 and currently has yearly earnings of $860 million with $530 million in gross profit.

The company keeps its total liabilities at $140 million, equating to less than 15% of its total assets. In the first quarter of fiscal 2020, Canada Goose reported total revenue of $71.1 million — an increase of 59.1% year over year. The company posted 79% growth in Europe and the rest of the world and 40% growth domestically. Revenue nearly tripled in Asia from $6.6 million to $18.1 million.

Since its IPO, the company has beaten earnings estimates every quarter equating to 10 straight quarters of outperformance. Earnings are expected to grow by an average of 25% annually over the next five years.

Analysts have a 12-month average target price of $68.18 for the stock. With the stock currently trading at $49.56 as of this writing, the target price indicates a nice upside potential.

Trade tensions continue to plague the stock

The greatest headwinds for the company appear to be the ongoing trade tensions in China. Still, Canada Goose is banking on international growth to drive its sales. China represents the world's largest luxury market, and Canada Goose is planning to expand its offerings in the region.

In December, the company will celebrate its first-year anniversary of its successful DTC launch into China. For the first time in the company's history, its global DTC footprint accounted for 50% of sales.

Tight inventory control

CEO Dani Reiss has demonstrated skill in maintaining a tight control on inventory. Unlike other clothing manufacturers, Canada Goose has a policy that its products are never discounted or sold to off-price retailers. It's difficult to regulate quarterly inventory to satisfy demand yet let leave little inventory to carry over. By not making their goods available to discount retailers, the company protects its luxury brand status and exclusivity for its customers.

The bottom line

We are quickly approaching the lucrative winter and holiday seasons, which are traditionally the best quarters for earnings for premier winter-weather clothing manufacturers. If holiday and winter sales exceed expectations, the stock could shoot past estimates, with the added potential to double in price over the next several years.

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