Is Canada Goose (TSX:GOOS) Stock a Buy Ahead of Earnings?

Description

It hasn't been a great year for one of Canada's fastest-growing retail companies. Year to date, **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) is down 10.72%. The underperformance is magnified by the fact the S&P/TSX Composite Index is up by approximately 16% this year.

There are a few factors that have played a part in Canada Goose's downtrend. Earlier in the year, the company issued guidance that pointed to slowing growth and was below analysts' expectations. Previous expectations were for +30% growth; however, the company is now guiding to +20% revenue growth.

Growth is being impacted by headwinds in China. Canada has been caught in the middle of the U.S-China trade war, and as such, country relations with China are tense. Likewise, the company recently opened a flagship store in Hong Kong. However, recent unrest has impacted the local economy, and management has warned that sales from its store will be impacted.

Canada Goose has a high price-to-earnings (P/E) ratio and is dependent on impressive growth rates to justify its valuations. If growth is slowing, then its share price will surely suffer.

Bears are also out in full force against the company. It is one of the most shorted stocks on the TSX. As of the latest short report, 22.4% of the company's float is sold short. The only ones facing more bearish pressure are stocks in the cannabis industry.

It is important to note, however, that the company has always been the target of short-sellers. It is one of the main reasons why the company sees large swing in the days following earnings. Either shorts are forced to cover their positions and the price skyrockets, or the company disappoints and there is increasing downwards pressure.

Canada Goose is expected to release fiscal 2020 second-quarter results on Wednesday, November 13. Analysts are expecting earnings of $0.44 per share on revenue of $267.49 million. This would represent negative year-over-year earnings growth (4%) and revenue growth of 53% over the second quarter of 2019.

It is worth noting that the company has beat on earnings in every quarter since it went public and only missed on revenue once. The lone revenue miss came with fiscal 2018 fourth-quarter results that were released this past March. It was also the start of its current downtrend.

Analyst seem to be warming up to the company. Since first-quarter results, the company has receive nine upgrades or upwards revisions to price targets. Of the 14 analysts covering the company, 10 have it rated a “buy” or “strong buy.” They have an average one-year price target of $68.01 per share. This implies 28% upside from today’s price of $53.23 per share.

Foolish takeaway

Should you buy ahead of earnings? As mentioned previously, Canada Goose has proven to be highly volatile on the day of earnings. Although the are concerns about slowing growth, analysts still expect average annual earnings growth of 25% over the next five years.

Given this, the company provides decent value. It is trading at only 24 times forward earnings and it has a P/E-to-growth (PEG) ratio of 1.26. Growth stocks typically command an PEG of at least 1.5.

If you are interested in taking a position in the company, it is recommended that you stage your purchases. Take half a position before earnings and wait until the dust settles post second-quarter results to top up your holdings.

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