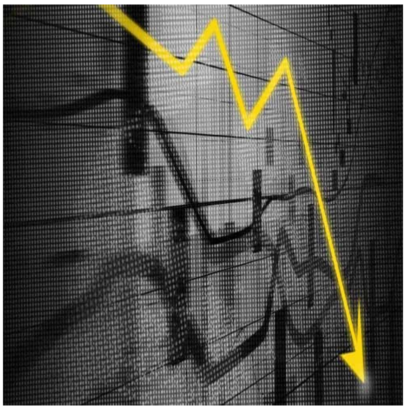

Canada Goose (TSX:GOOS) Plummets From 2018 Highs: Time to Buy?

Description

One sector that has been hit hard in the last year is the consumer discretionary sector. That is, companies that benefit from strong consumer spending on non-essential items. **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) is a prime example of the troubles that this sector and its stocks are faced with.

What happened?

Canada Goose stock has plummeted 44% from 2018 highs, as two things happened. First, talk of China trade wars put a damper on the optimism surrounding the stock, and second, the stock was trading at crazy high valuations. With investors in general becoming more risk averse, the only way possible for the stock was down. So, the stock fell hard, and given the stock's valuation, which got as high as almost 70 times earnings, it is no surprise that it began to free fall.

Today, Canada Goose is trading at 29 times this fiscal year's expected earnings and 24 times fiscal 2021 expected earnings. This is a far cry from prior multiples of almost 70 times, and although the company is facing some risks, results have, in general, continued to be pretty impressive.

What to do now?

At this time, the question is, does this growth stock represent good value today, and is it the right time to buy? There are three things that worry me about the stock at this point.

First, we have the disappointing latest results. Canada Goose reported gross margin of 57.5% compared to expectations of north of 61%. This miss can be attributed to the fact that Canada Goose remains a growth story, with new products and categories making the company vulnerable to start-up inefficiencies. Management has assured investors that long-term gross margins should be close to long-term historical levels. Also, along with the mix shifts, labour pressures have driven costs higher and margins lower.

Second, we have the company's valuation. While it is down markedly from year-ago levels, a retail stock trading at a price-to-earnings multiple of almost 30 times is not, by any means, a cheap stock. The consumer discretionary/retail industry is a highly cyclical one, and with a valuation like Canada Goose's, this leaves the stock highly vulnerable to disappointments and/or company missteps.

Lastly, we have Canada Goose's presence in China and Hong Kong, which will certainly contribute some noise and downward pressure to the stock.

Canada Goose will be reporting second-quarter fiscal 2020 results on November 13. Consensus expectations are for EPS of $0.44, which compares to EPS of $0.46 in the previous year. This is not the type of growth profile we would expect of a stock that is trading at almost 30 times earnings. Caution is therefore warranted.

Foolish bottom line

Canada Goose continues to lack diversity in its product offering. While the premium outerwear market has remained strong worldwide, as the company grows, its lack of diversification will present as a real risk that needs to be contended with.

We do not know what the future will hold for consumer spending on non-essentials, but we can at least say that debt levels are high and risks are mounting. As a result, I think that luxury retail stocks are not the best place to park our money, especially at this point in the cycle.

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