Canada Goose Holdings (TSX:GOOS) 11% Post-Earnings Drop Is an Opportunity

Description

After rebounding from lows in early June, things were beginning to look up for **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) — then November hit and the stock began another downtrend heading into earnings.

On Wednesday, Canada Goose released strong second-quarter results in which it beat on the top and bottom lines. Earnings of $0.57 beat by $0.13 and revenue of $294 million beat by $25.91 million.

The initial report resulted in a pre-market, double-digit jump in its stock price. Unfortunately, sentiment shifted quickly and the stock closed with a loss of 11% on the day of earnings.

Why the sudden shift? On the company's quarterly conference call, management made a few comments that sent investors into a tizzy.

There were two predominant factors that spooked investors – continuing tensions in Hong Kong and a lower-than-expected third-quarter outlook for wholesale revenue.

Goose's Hong Kong store opened to significant fanfare just over a year ago. It is a key growth market for the company as Hong Kong is one of the premier shopping capitals in the world.

Management has admitted that the ongoing tensions have impacted tourism and that its *"…store and IFC has been impacted it significantly."* Investors however, must keep a bigger perspective in mind. First, the situation is temporary and secondly, we're talking about one store.

Revenue in Asia nearly doubled from $26.2 million to $48.9 million in the quarter and U.S. revenue jumped by 38.5%. Likewise, its direct-to-consumer (online) segment continues to grow at a rapid pace as sales grew by 47.2%.

In total, revenue rose by 27.7% over the second quarter of 2018, beating expectations by 10%. Does this sound like a company that's struggling?

Next, let's clarify the company's comment re: wholesale revenue. The headlines blamed Canada

Goose's dip on the fact that management warned against lower-than-expected wholesale revenue.

On the surface, this is true. The company is expecting *"wholesale revenues in Q3 to decrease in the mid-teens on a percentage basis year-over-year."* However, what investors seem to have missed is that full-year guidance is not impacted.

In the company's own words, the guide-down, *"…is purely a function of timing."* Wholesale operating margins remain in the mid-to-high 40s range, and Goose expects to exit the year with high single-digit wholesale growth. Full-year guidance is based on knowing the wholesale book for the entire year.

As per Jonathan Sinclair, Executive VP and CFO, *"If we supply it sooner, if we supply it sooner than the reality is the order book is fulfilled."* It's therefore important to re-iterate that the company has not guided downward – Canada Goose remains on target to achieve full-year wholesale revenue expectations. The revenue has simply shifted from one quarter to another.

Foolish takeaway

There was nothing in the underlying numbers that warranted a double-digit drop in share price. The company's Asian segment remains strong and it has re-iterated full-year outlook which calls for 20%+ revenue growth.

Thanks to the drop, Canada Goose is trading at a cheap 21.76 times forward earnings and at a PE to growth (PEG) ratio below one.

Analysts are expecting average earnings growth of 25% annually and have a one-year price target of $60.49 per share. This implies 31% upside from today's price of $46.13 per share.

Given the market's overreaction, I expect to see several upgrades over the next few weeks as analysts digest the stronger-than-expected quarter.

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