An Unlikely Canadian Growth Stock for China Bulls

Description

Are you bullish on the Chinese economy? TSX investors haven't been this week if one unlikely bellwether stock is any indication. **Canada Goose** (TSX:GOOS)(NYSE:GOOS), a stock that has been tracking the trade war with increasing accuracy, fell this week on news that its next quarter would likely see wholesale year-on-year revenue fall by double digits. The stock promptly ditched 10%.

A cited blowback from unrest in Hong Kong was also behind some of that sell-off. However, the Q2 report wasn't all bad news. The parka company saw an earnings beat that included revenue growth of almost 30%, with boosted direct-to-customer business driving profits. Investors should also consider that China, one of the drivers of growth in the company, may be on track for a brighter 2020.

Canada Goose has shed almost half of its value since this time last year, with 12-month losses of 47.9%. However, given the strength of its brand and the possibility of a turnaround in relations between the U.S. and China, value investors of a contrarian bent may want to ignore the short-sellers and snap up shares in the famous parka company.

With the markets swinging on every headline that comes out of the trade war, as well as unrest in Hong Kong, any positive development is likely to have a direct effect on the share price of connected stocks, such as Canada Goose. However, there is an element of "the boy who cried wolf" at the moment, with every hint of a deal between the U.S. and China — and every subsequent disappointment — having a cumulative effect.

A strong brand to snap up on weakness

New investors may not be aware that the Canada Goose story goes back six decades. The luxury clothing brand only debuted on the TSX two years ago, however, and has seen intense volatility ever since, growing by a massive four times the initial share price by the last financial quarter of 2018, a year that saw the company enjoy a 50% boost in revenue.

However, the stock has since halved in value, meaning that although early investors lost 50% of their initial investment, newcomers have a more reasonably priced stock with room to grow. That growth is likely to come from direct-to-consumer business, increased e-commerce activity, and a bolstered high street presence.

Canada Goose has also seen its share price become correlated with the U.S.-China trade war. However, while rapid growth in the Asian market has been behind some of the iconic fashion brand's success, the grinding dispute between our two largest trade partners has led to the parka producer taking a big hit on the North American stock markets.

The bottom line

Seeing that the trade war and shares in Canada Goose are now linked, any positive breakthrough in relations between our two biggest trade partners, no matter how slight, could lead to an improvement in price. In the longer term, Canada Goose could rocket to pre-2019 prices and regain some of its lost momentum. Given a total reversal of the Sino-American tariff situation, Canada Goose could soar once again.

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