Why Did Canada Goose (TSX:GOOS) Stock Fall 21% This Month?

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) was once one of the best performing stocks on the TSX. Following its IPO in 2017, the stock *quadrupled* in 18 months. The story since then has been lacklustre. Since mid-2018, shares have been nearly cut in half. Despite the latest drop, the stock has still doubled in value since 2017, but volatility has scared off many long-term investors.

In November, Canada Goose shares lost roughly one-fifth of their value. What's going on? If management is correct, the current stock price is an outright steal. But does the market know something they don't?

This could be your best chance at doubling your money in 2020, but the devil is in the details.

Here's what happened

The price decline stems from a simple factor: falling expectations. Post-IPO, Canada Goose was growing sales and earnings by 40% per year. Revenue growth over the last 12 months still reached 38%, but it was management's guidance that worried investors. Earlier this year, executives suggested that multi-year growth will only average between 20% and 30%. That's still impressive, but the market had priced-in higher growth rates.

Importantly, the company is still growing like a weed. Customer loyalty remains at all-time highs, gross margins continue to lead the industry, and drool-worthy growth opportunities still exist in some of the largest luxury markets in the world.

The decline represents a reset in expectations, but judging by the current valuation, it appears as if the market swung a bit too hard the other way. It doesn't take crazy math to see how this stock could double.

Too cheap to ignore

In the past, Canada Goose shares were often priced between 100 and 150 times trailing earnings. Today, that valuation is down to just 36 times trailing earnings. That's a steal for a company growing profits this fast.

Even with reeled-in expectations, analysts still expect earnings to grow by roughly 30% per year over the next five years. That means by the end of 2024, Canada Goose could be earning more than $6 per share. Even if shares traded in-line with the market, the stock would be valued at $120 per share, representing 150% in upside. If the company can retain a 30 times earnings valuation, there would be nearly 300% in upside.

What about in a worst-case scenario? If earnings grew at just 15% per year, the company would be generating EPS of around $3.40 in 2024. If the valuation was in-line with the market average, with zero premium priced-in, shares would trade at roughly $70 apiece. That's still a 50% return over five years.

No matter how you slice it, Canada Goose stock is a bargain with a large margin of safety built in.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/07/06
Date Created
2019/11/24
Author
rvanzo