2020 Recession: This 1 Stock Is the Ultimate Value Play!

Description

Canada Goose (TSX:GOOS)(NYSE:GOOS) is engaged in the design, manufacture, and selling of premium outdoor apparel for people of all ages. The company's collection includes parkas, lightweight down jackets, rainwear, windwear, knitwear, footwear, and accessories.

Intrinsic price

Based on my calculations using a discounted cash flow valuation model, I determined that Canada Goose has an intrinsic value of $39.46 per share. Assuming less-than-average industry growth, the intrinsic value would be $34.25 per share, and higher-than-average industry growth would result in an intrinsic value of $47.19 per share.

At the current share price of $51.51, I believe Canada Goose is overvalued. That said, given the fact that Canada Goose is a luxury good, the impending recession will have a material effect on share price, which allows investors to purchase shares at a better price.

Canada Goose has an enterprise value of $4.5 billion, which represents the theoretical price a buyer would pay for all of Canada Goose's outstanding shares plus its debt. One of the good things about Canada Goose is its low leverage with debt at 2.5% of total capital versus equity at 97.5% of total capital.

Financial highlights

For the six months ended September 29, 2019, the company reported a strong balance sheet with positive retained earnings of $393 million. This is a good sign for investors, as it suggests the company has more years of cumulative net income than cumulative net loss. Inventories grew by 61% over the course of a year, which suggests the company anticipates increasing demand for its products.

Overall revenues increased significantly from $275 million in 2018 to $365 million in 2019 (+33%), which comes after Canada Goose's expansion into Asia. Net income for the period is stagnant year over year at $31 million, driven by increasing depreciation and amortization costs.

Unsurprisingly, the company continues to report negative cash flows from operations due to its growth plans. This is driven by increased inventory and accounts receivables, which are both non-cash operating items.

The company received approval to initiate a normal course issuer bid to purchase and cancel up to 1.6 million subordinated voting shares. During the six-month period, the company has purchased and cancelled 853,500 shares for $38.7 million. This is often a strategy used by management to indicate it believes the current share price is undervalued.

Canada Goose has credit facilities totaling $200 million (with an increase to $250 million during peak season). $50 million is dedicated to letters of credit and a swingline commitment, which each represent $25 million. The facility remains 82% unutilized, which is good for investors, as it allows the company to draw on it to grow the business.

Foolish takeaway

As the market corrects itself in 2020, I believe investors will see shares of Canada Goose drop significantly. I think the company in itself is well managed and would advise investors to sit tight and follow the company's share price for an opportunity to buy in.

At current share price of $51.51, I believe Canada Goose is overvalued. Using my discounted cash flow model, I believe Canada Goose is worth $39.46 per share, which represents a material difference from current share price.

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