



This Legendary Canadian Stock Is Way Too Cheap to Ignore

Description

Legendary stocks often attract a hefty premium due to their historical success and name recognition. Every once in a while, however, these stocks go on sale. The reasons behind each drop vary, but they all deserve careful consideration.

One such legend is **Canada Goose Holdings Inc** ([TSX:GOOS](#))([NYSE:GOOS](#)). Founded in 1957 in Toronto, more than 5% of Canadians now own a Canada Goose jacket. That's downright amazing. Take a look at any other fashion brand in history and you'll rarely find a company with this level of domestic success.

In 2017, the company went public. Over the next 18 months, shares nearly *quadrupled*. The last 12 months have been a different story, however, with shares losing around one-third of their value.

Once one of Canada's most expensive stocks, this growth company is now trading at bargain valuations. Plus, international growth could push profits to record levels in 2020. Now looks like the time to [strike](#).

An incredible business

Despite the pullback, Canada Goose continues to fire on all cylinders.

Over the next several years, management wants to surpass 20% annual sales growth, hitting \$1.4 billion in sales by 2022. EPS is expected to grow by at least 25% per year, hitting \$2.66 by 2022. Judging by the data, both of these milestones should be achievable.

Let's start with sales growth. In 2019, sales in Canada and the U.S., which constitute roughly two-thirds of current sales, grew by 28% and 36%, respectively. These are more mature markets, so trending toward the 20% per year growth mark seems reasonable.

The biggest growth, however, should come internationally. Canada Goose is only now establishing a presence in lucrative markets like Japan, South Korea, and Europe, not to mention the largest luxury

market in the world, China. This year, international sales grew by an astounding 61%.

Growth in these regions is still in the early stages, so breakneck speeds should continue through at least 2022. In light of this, management's 20% annual sales growth target seems way too conservative.

Now, let's move to profitability. In 2017, gross margins stood at 52.5%. In 2018, margins rose to 58.8%. This year, they rose yet again to 62.2%. By comparison, competitor **VF Corp** has gross margins of 52%.

Rising profitability has been fuelled by a direct-to-consumer (DTC) strategy, which circumvents retail middlemen, eliminating the need for wholesale pricing.

In 2017, wholesale revenue was \$289 million. Over the last two years, wholesale revenue increased to \$399 million. Retail partnerships are therefore still strong and growing, but it's the DTC strategy that has taken off. In 2017, DTC sales were just \$115 million. This year, they were \$431 million.

Accelerating DTC sales helps Canada Goose control the customer experience, gain valuable data, boost margins, and accelerate top-line growth. Most important, it proves that its products are still in high demand, even without a third-party retailer validating the brand.

As cheap as it gets

Using management targets, Canada Goose should generate EPS of \$2.66 in 2022, which means shares currently trade at just 19.7 times 2022 earnings.

If the stock can maintain its current 30 times trailing earnings valuation, a deep discount compared to previous years, there would be 50% upside over the next 24 to 36 months.

Yet as we've proved, management's expectations are likely overly conservative. It looks reasonable to expect EPS of \$3.00 by 2022. At that rate, shares would have 70% upside.

No matter how you slice it, this is an incredible business trading at a bargain valuation. Canada Goose should be at the top of your 2020 buy list.

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