# Canada Goose (TSX:GOOS) Stock Is Primed for Big Gains in 2020

## Description

**Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) is one of the hottest companies in Canada. According to the company, more than 5% of all Canadians own one of its jackets. Few businesses in the world have ever attained this level of success.



Fortunately for you, it's not too late to make big gains with this stock.

In 2017, Canada Goose stock went public at $23 per share. By 2018, it had surpassed $90 per share, a 300% gain in just 18 months. Then, in 2019, management revised its long-term growth forecast, pushing shares down to just $45 apiece. Long-term investors have still made a handsome profit, but the stock had lost some of its former glory.

For the past six months, share have consistently traded in the $45 range, despite record-breaking financial results. Judging by the current valuation, Canada Goose could be Canada's top *value* stock of 2020. That's particularly interesting considering all of the financial indicators suggest this company should be classified as a *growth* stock.

Buying a growth stock at a value price is every investor's dream. It's one of the best ways to outperform the market for years at a time.

Why is Canada Goose trading at such an attractive valuation? This is a classic instance of the market missing the forest for the trees.

## Reset your expectations

If you want to bet on Canada Goose stock, the first thing to understand is the underlying expectations game.

After its IPO, when shares went on an impressive run, the company was growing sales and earnings at ridiculous rates. Over the last three years, for example, sales have grown by 45% annually, while net income grew by 99% annually. That's tech-level growth — a rarity for a luxury retail company.

By June of 2017, the company was priced at an incredible 170 times earnings. Its tech-level growth rates were being matched with tech-level valuations.

Then everything changed. In 2019, management lowered its long-term forecast, which now calls for sales and earnings growth between 20% and 30% per year. That's still impressive, but the stock's valuation had baked in higher expectations. As a result, the stock fell by more than 20% in a single day, ultimately shedding 40% of its peak value.

Here's the lesson: when expectations were *high*, the stock was overpriced, but now that expectations are *low*, the stock is underpriced. All it takes is a little math to verify this.

## How to invest

Canada Goose stock now trades at 28 times forward earnings. That's absurd for a company still growing earnings at a rate above 25%.



This fiscal year, which ends in March, analysts expect the company to earn $1.65 per share. Over the next five years, analysts expect EPS to grow by 35% per year, above management's guidance. In a worst-case scenario, let's say that EPS only grows by 20% per year. How much would the stock be worth in five years?

At a 20% growth rate, EPS would hit $4.10 by 2025. Even at its current depressed valuation multiple, that means shares would be valued at $115, more than double the current share price of $47. Again, this is using *worst-case* variables.

Despite slowing top-line growth, Canada Goose is still growing international sales by more than 50%. In 2020, expect the investment narrative to shift towards international expansion, where the company has more than a decade of runway. Even if the valuation gap closes halfway, there should be at least 30% of upside over the coming 12 months.

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