Will Canada Goose Reach $60 in 2020?

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) is coming off a disappointing 2019 where the stock fell 21% despite a very strong year for the markets.

With its growth rate slowing down, investors have become concerned with Canada Goose's valuation. Before the stock went over a cliff in May as a result of a disappointing outlook, Canada Goose stock had strong support at the $60 level.

If it can return to that price point, that would mean a return of more than 25% for investors who buy the stock today.

Why the stock could rally

The biggest hurdle for Canada Goose stock in 2020 is that with a market cap of more than $5 billion, it's a bit of an expensive valuation for a stock that sells over $1,000 parkas.

Currently, the stock is trading at a price-to-earnings (P/E) ratio of 36, but with analyst expectations still looking strong, its forward P/E is expected to drop to 22. Its PEG ratio of 1.1 suggests that over the long term, the stock could be a good value buy as well.

PEG considers P/E as well as growth, and Canada Goose could be a bit of a bargain as investors typically look for PEG to be one or lower, and the stock is only marginally above that threshold.

As long as things don't get any worse for Canada Goose and its growth rate doesn't continue to taper off, there's definitely room for the stock to bounce back in 2020.

Why the stock could falter

One area where I do have a concern, however, is with the company opening more storefronts and effectively increasing its risk by being more of a conventional retail stock.

One of the company's strengths was its high margins and strong direct-to-consumer segment that enabled Canada Goose to enjoy sales all over the world without needing to manage inventory in all those places.

Having more physical locations will add to overhead and increase costs for the company, potentially eroding some of its profitability along the way.

While it'll help grow sales as well, I'm not sure it'll be worth it in the long run, especially given how many retail giants have struggled. If economic conditions worsen, the demand for expensive winter wear just may not be as strong as it has been in the past.

The other risk is the company's exposure to China. Not only are tensions high involving Canada, but the instability in Hong Kong also presents a potential problem for Canada Goose, with the company already acknowledging that it has impacted its business. These geopolitical issues will continue to weigh on the stock in 2020.

Is the stock a buy?

A good quarter can certainly lift Canada Goose's stock back up to $60, but there are too many uncertainties surrounding the stock today that make it too risky of a buy.

Although it has seen some support at around $45 over the past several months, if Canada Goose doesn't have some strong results in 2020, it could potentially sink even further down.

Investors may be better off waiting for now, as there are many other growth stocks out there that could provide good returns without being nearly as risky as Canada Goose.

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