Canada Goose (TSX:GOOS) Stock Is the Top Growth Pick for 2020

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) is one of Canada's most beloved companies. Management believes that more than 5% of all Canadians own one of its jackets. Around 90% report that they'll return to the brand for their next outdoor jacket purchase.

Even the first Canadian to summit Mount Everest was wearing Canada Goose apparel. You simply can't replicate this level of loyalty or history. That's why the stock's recent correction caught my eye. On many metrics, Canada Goose shares are simply too cheap to ignore.

This isn't your classic value pick, however. The company is still growing both earnings and sales at double-digit rates. International sales are increasing by more than 50% per year.

It's not often that you get the chance to buy a growth stock at a value price. This could be your biggest opportunity of 2020.

What went wrong

Canada Goose was running on all cylinders in 2018. Shares quickly zoomed from $40 at the start of the year to $90 by November. Sales and earnings were growing above 40%.

On every metric, the company was executing flawlessly, causing the market to apply a heavy premium to shares. That year, the stock frequently traded above 100 times earnings. That's an obscene multiple for a retailer.

Eventually, the market's over-pricing was reeled in. In 2019, management released its new long-term targets, which called for annual sales growth above 20% and annual profit growth above 25%.

That's still impressive, but when investors and analysts crunched the numbers, they quickly realized that the current valuation didn't support this forecast.

From November 2018 to November 2019, Canada Goose stock was cut in half. To be sure, margins, sales, and EPS continued to rise at a healthy clip. The selling pressure was completely caused by a compression in the valuation multiple.

Just as the valuation swung too *high* in 2018, it appears as if it's swung too *low* in 2020. This looks like a prime buying opportunity.

What the market is missing

Today, GOOS stock trades at just 20.5 times forward earnings. That's a tragedy.

Canada Goose currently derives two-thirds of its revenue from North America, which is mostly due to its existing brand awareness and loyalty, not to mention a more mature distribution infrastructure. In 2019, Canada sales grew by 28% while U.S. sales grew by 36%.

With 61% gross margins and 16% profits margins, it's not difficult to see how shares are badly mispriced. Using North American growth rates, shares would trade well under 15 times earnings by 2022. No growth stock with these fundamentals trades at even close that valuation.

It gets better, however. Indeed, one-third of sales are international. In 2019, this segment grew at an incredible 61%! The company still has a massive runway for growth in the largest luxury markets in the world, namely China, Japan, South Korea, and Western Europe.

Valuations can get of whack temporarily, especially following a period of over-valuation, but eventually, valuations revert, whether it's through multiple reversion or brute force via earnings growth.

In 2020, Canada Goose is priced for disaster despite sales and profit growth that would make any retailer envious.

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