Will Coronavirus Drive Canada Goose (TSX:GOOS) Stock Lower?

Description

The coronavirus in China may have a huge impact on global markets. The virus outbreak which began in the country's Wuhan province has now affected over 4,000 individuals globally.

While the outbreak is still not declared an emergency, it has spread to several countries including France, U.S., Thailand, Malaysia, Vietnam, Taiwan, Australia, Singapore, South Korea, Nepal, and Japan.

The rising number of cases has sent energy stocks lower. Shares of **Suncor Energy** are down 5% in the last five trading days as investors are worried about declining demand should the virus outbreak worsen.

The last virus outbreak that shook the entire world was SARS back in 2003. At the time. China's consumer spending plunged, as did the country's commodity prices including oil and industrials.

The death toll in China has resulted in the lockdown of its Wuhan Province. Several Asian markets are trading in the red this week and companies with large exposure to China will be negatively impacted. One such firm is **Canada Goose** (TSX:GOOS)(NYSE:GOOS).

Canada Goose fell 5% yesterday

Shares of luxury retail company Canada Goose (TSX:GOOS)(NYSE:GOOS) fell 5% on January 27, 2020 to close trading at $42.43. While the company generates around 65% of sales from North America, it is banking on China to drive top-line growth.

In Asia, Canada Goose sales rose by an impressive 83.5% year over year in the fiscal second quarter of 2020 (ended in September). In the last two quarters, sales from Asia rose by an impressive 101.5% for Canada Goose.

The company's unallocated corporate expenses were $43.2 million in the fiscal second quarter, up from $34.2 million in the prior-year period. This increase was attributed to "investments to support growth in marketing, people, technology and expansion in Greater China."

Canada Goose almost doubled China sales in the second quarter and has invested heavily in infrastructure in the Greater China region.

Upcoming quarterly results critical

Canada Goose will report its fiscal third quarter of 2020 results next month. Analysts expect the company to post sales of $449.36 million in the December quarter with earnings per share of $1.07.

However, all eyes will on the guidance for the fourth quarter of fiscal 2020. Analysts expect Canada Goose to report sales of $214.28 million and earnings of $0.26 in the March quarter. There is good chance that management might lower its outlook for Q4 given China's grim scenario and expected slowdown in consumer spending.

Canada Goose stock has lost 54% since November 2018

Canada Goose stock has lost significant value in the last 15 months. Driven by the trade war escalation in the last year and concerns on its valuation, Canada Goose investors have lost 54% since November 2018.

The company has crushed consensus earnings and revenue estimates in the last two quarters. However, management didn't raise guidance for the rest of fiscal 2020, leaving investors unimpressed.

Just as the stock was poised for a comeback, the recent virus outbreak has driven shares close to 52-week lows. Canada Goose stock has limited downside potential unless management guidance is really dreadful.

The stock is trading at a forward price to earnings ratio of 20.2 — a bargain given the company's expected 5-year earnings growth of 24%. Canada Goose is a recognizable brand with a loyal customer base, but there's still a bit of uncertainty in the short term.

However, the stock should remain on the radar of long-term growth investors.

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