Canada Goose (TSX:GOOS) Stock Is Cheap

Description

It was once one of Canada's most prolific stocks. **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) came out of the gates flying when it listed on the TSX Index in early 2017. Less that two years later, the luxury retailer hit an all-time high of $95.58 in November of 2018. Lucky shareholders who got in early on the company's initial public offering (IPO) would be sitting on gains of 300%.

Since hitting this all-time high, however, Canada Goose has been mired in a downward trend. The company has lost more than 50% of its value and, as of writing, is trading at only $39.64 per share.

The interesting part? The company's downfall hasn't been self-inflicted. Typically, when you see big declines such as this over a short period of time, it is a sign that the company is underperforming. This is not so for Canada Goose.

Since it went public, it has beat on the top and bottom lines in every quarter. That is 11 consecutive quarters of outperformance. Over the past six quarters, it has surprised to the upside by an average of 38%! It is not only beating estimates, but it is crushing them.

So, why the persistent downward trend? It has nothing to do with fundamentals and everything to do with macro-related events — specifically, Goose's operations in Asia. Each one of the following events gave the markets an excuse to punish the stock:

- U.S.-China trade war
- Canada's arrest of the CFO of Chinese tech giant Huawei
- Hong Kong protests
- Coronavirus

Since Asia is a key growth market for the company, all of the above macro-level events have the potential to impact the company's growth prospects in the region. Canada Goose can't seem to catch a break. As one event subsides, another enters the fray, and none speak to the long-term fundamental prospects of the company. The end result has been an overwhelmingly negative sentiment and has led to the stock's current bear market.

The good news? Canada Goose is now cheap, and analysts continue to underestimate the company's resilience. On the last quarterly results conference call, management expressed confidence in their ability to hit revenue growth targets in excess of 20%.

As of writing, the company is trading at only 14.03 times forward earnings. This is based on analysts 2021 estimates. Keep in mind, these same analysts have been underestimating the company ever since it went public. Given this, it is likely that Goose is even cheaper than it looks.

The company is expected to grow earnings by an average annual rate of 25% over the next couple of years. This gives it a P/E-to-growth (PEG) ratio of 1.20 and is a clear sign that the market is not appropriately valuing the expected growth rates. For a company growing at a 20% clip, anything below a PEG of 1.50 is considered cheap.

Foolish takeaway

It is only a matter of time before the markets recognize Canada Goose's undervaluation, and the rebound may come sooner than investors expect. The company is nearing oversold territory with a 14-day relative strength index of 33. The only other time the company entered oversold territory, the stock gained almost 30% in the weeks that followed.

Now may be the perfect time to jump in on Canada Goose before the next leg up.

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