Canada Goose (TSX:GOOS) Stock Is the Turnaround Story of 2020

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) has been a boom-or-bust stock. From early 2017 to late 2018, shares more than tripled. Since that peak, however, the stock has slid by 60%.

This year, investors should prepare for another strong surge. If you remain patient, you could double your money with Canada Goose stock.

Why does this lucrative opportunity exist? Let's dive in.

Surging expectations

In 2017, Canada Goose saw sales increase by 51%. Gross profit rose by 69%. EPS more than *tripled*. On all metrics, the company was crushing it. By the end of the year, the company had a $4.5 billion market cap. That seemed like a bargain price compared to expected growth.

As a luxury retailer selling high-end coats that cost as much as $1,000, Canada Goose carved out a reputable niche with sky-high margins. More than 5% of all Canadians own a Canada Goose jacket, with the vast majority indicating that they'll buy *another* from the company for their next winter purchase.

For decades, domestic customers have loved this brand. Over the coming years, the market expected that love to go global. The company had a very limited presence in China, for example, which is the largest luxury market in the world. Growth was still in the double digits in North America, but international expansion had the opportunity to double or triple the size of the entire business.

Given these lofty expectations, the stock traded between 100 and 150 times trailing earnings. That's a *steep* price for a retail company. At the end of the day, the stock market is an expectations game. High expectations are harder to meet than low expectations. Unsurprisingly, Canada Goose couldn't match up with what the market demanded.

Reversal of fortunes

Last year, management reset its long-term growth forecast. Over the next several years, it expects sales to grow by at least 20%, while EPS should rise by at least 25% annually. That's still impressive, but nothing near what the market had been pricing in. Expectations had been too high, and the share price needed to dip hard to realign.

Today, shares are priced at $40 apiece, a far cry from their peak of $90 in 2018. Following the slide, the stock trades at just 23 times forward earnings. Expectations had been too high, but now, they look too low.

Importantly, international growth is still tracking as expected. Last year, these sales comprised roughly one-third of total sales, yet grew by more than 60% year over year. While this opportunity is still a minority of the story, it should fuel higher EPS growth through the rest of this decade.

By 2022, management expects EPS to jump to $2.66. That means shares trade at just 15 times 2022 earnings. That valuation makes zero sense for a company growing EPS by more than 25% annually. It wouldn't be egregious for shares to trade at *double* the valuation.

Why hasn't the stock rebounded already? The coronavirus is perhaps the biggest impediment to growth in 2020. With millions of people trapped in their homes, Asian sales growth should be underwhelming this year.

Hopefully, however, this sales headwind is a temporary phenomenon. As the virus is contained, sales growth should normalize. Once data shows that the international growth story is still intact, expect Canada Goose stock to rise sharply. You just need a bit of patience, but buying now locks in the bargain valuation.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/07/19
Date Created
2020/02/18
Author
rvanzo