Coronavirus Fears Just Made This Stock a Screaming Buy

Description

The coronavirus is all over the news. The growing pandemic seems to be permeating every conversation, from health and wellness to politics and economics. Countless stocks are also being punished. After all, the global economy still runs through China, leaving many companies in the line of fire.

Consider **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS), once one of Canada's top-performing stocks. Between 2017 and 2018, shares tripled. Recent performance has been the complete opposite, with shares losing more than half of their value.

What's the problem? China and the coronavirus. Canada Goose faces a serious threat in this regard, but critically, it's a *temporary* threat. Patient investors can profit immensely by taking an early risk now.

All about expectations

The stock market is a game of expectations. Even if a company is growing rapidly, if the market priced-in even higher growth, the stock price could struggle. The opposite is also true. If growth is tepid but exceeds expectations, shares could rise.

Canada Goose is a prime example of this expectations game. In 2017, sales and earnings were growing by more than 40% per year. Management was teasing massive growth opportunities abroad, where it just began investing serious capital.

The market fell in love, assigning the retailer a steep valuation between 100 and 150 times earnings.

In 2019, the company revised its long-term growth forecast, calling for at least 20% annual sales growth and 25% annual EPS growth. While impressive, these numbers paled in comparison to baked-in expectations. The stock slid as analysts factored in lower growth assumptions.

To make matters worse, the coronavirus disrupted the company's biggest growth opportunity: China.

Already the largest luxury market in the world, China is a huge part of the Canada Goose story. Chinese consumers show a propensity to buy high-end luxury items en masse. Canada Goose's popularity in the West, combined with a $1,000 average price tag, make these products ripe for Chinese adoption.

Last week, **Goldman Sachs Group** cut GOOS shares to *neutral* from *buy* purely due to coronavirus fears. While these fears are legitimate, as with any other health outbreak, the impact should likely be temporary, thereby setting the stage for a clear buying opportunity.

Still on track

Here's the deal: Canada Goose isn't a one-year company. The company was founded in 1957, eventually outfitting the first Canadian to summit Everest. Over 5% of Canadians now own a Canada Goose jacket, and roughly 90% say that they'll return to the company for their next winter jacket purchase.

You simply can't replicate this level of history and brand loyalty in a single year. Similarly, the company's durable competitive advantages won't be erased in a single year.

Last year, international sales accounted for one-third of company sales. Critically, this segment grew by 61% year-over-year! It's a minority of this business, but long term, it will become *the* business.

The coronavirus should hit international sales hard. Expect positive growth, but nothing like what the market is used to. The catch is that expectations have already cratered *in advance*. The stock trades at just 23 times forward earnings, an outright steal compared to historical norms.

Once coronavirus fears subside and Chinese consumers restart luxury spending habits, Canada Goose stock will be primed to explode.

Nothing sets the stage for rapid upside like ultra-low expectations and surprise growth. This story will take a few quarters to play out, but early investors can secure the best valuation this stock has ever had.

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Date
2025/08/25
Date Created
2020/02/20
Author
rvanzo