This Growth Stock Just Became a Buy

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) used to be Canada's hottest growth stock. From 2017 to 2018, the stock *quadrupled* in value. Sales and profits were growing by more than 40% per year. The valuation multiple at one point surpassed 150 times earnings.

Countless stocks with high expectations end up disappointing. The same can be said of Canada Goose. Note that the company is still very profitable and growing at double-digit rates; it's just that too much optimism was baked into the stock price, so a correction was inevitable.

From late 2018 to mid-2019, Canada Goose shares fell by half. The stock looked like a bargain again. Then the coronavirus hit. As we'll see, the pandemic will hit the company especially hard, yet if we peer into the future, this could be a limited-time opportunity to profit. All you need to do is be patient.

Here's what happened

When Canada Goose stock was trading at nose-bleed valuations, the market was in love with everything.

First, the company had an iconic brand with an irreplaceable history. Its roots traced back to 1957. Even the first Canadian to summit Mount Everest was wearing Canada Goose gear. In Canada, more than 5% of the population owned one of the company's jackets. That's simply an incredible feat.

Second, profitability was near the top of the industry, and rising. With an iconic brand, Canada Goose was able to sell $1,000 jackets at 60% gross margins. That's up from 40% in 2015 and 50% in 2016. For comparison, **VF Corp**, a competitor that owns brands like Smartwool and The North Face, has gross margins of around 50%. That company has had stagnant profitability for more than five years.

Last, Canada Goose had a huge runway for international growth. While the brand was well known in North America, it had just begun to scratch the surface of Asian and European markets. Last year, international sales grew by more than 50%, roughly double the rate of North America. Management recently opened a few stores in China, the largest luxury market on the planet.

In 2019, executives updated their long-term growth forecast, which called for annual sales growth of at least 20%, with annual EPS growth of at least 25%. Those were impressive numbers, but below what had been priced in. The stock reasonably corrected, but then the coronavirus threw the biggest growth opportunity of all — China — into question.

Profit with patience

After trading at a peak of 150 times earnings, GOOS stock now trades at just 30 times earnings. It's quite the reduction in valuation. Lower long-term growth has been part of the cause, but the impact of the coronavirus cannot be overstated. Since the outbreak began, shares have sunk by around 20%.

There's no doubt that Chinese consumers are purchasing fewer luxury goods, but that phenomenon is purely a result of the virus. The pandemic may be devastating, but most experts agree that it will be temporary. In 24 months, the global economy will likely return to normal. That creates a buying opportunity for patient investors.

Looking ahead, Canada Goose stock trades at 21 times 2021 earnings, so analysts are still expecting growth, not to mention profitability. The firm should have plenty of incoming cash, so don't be surprised if management institutes a share buyback to capitalize on the discounted valuation.

Even if earnings stagnate this year, the international growth opportunity will still exist throughout the decade to come. Buying a stock that can grow earnings at 25% per year for 21 times forward earnings is a rare chance. You'll need to stick out the current pandemic, but that risk looks adequately compensated with plenty of reward.

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