2.7 Million Reasons to Bet on Canada Goose (TSX:GOOS) Stock

Description

While the global stock market has had a bad month, **Canada Goose** (TSX:GOOS)(NYSE:GOOS) has had a bad year. The stock has been steadily sliding for the past 15 months. Since November, 2018, the company has shed 67.5% of its value. It's fair to say the company's problems may have started long before the pandemic.

Nevertheless, I believe the stock is now low enough to warrant attention. Contrarian investors looking for a distressed asset with a long-term growth trajectory should probably add Canada Goose to their watch list.

Here's why:

A robust balance sheet

There's no doubt that Canada Goose faces a demand shock in the short-term. Stores are shut across the world and people don't buy luxury coats during the spring anyway. Investors see a substantial downturn in sales for 2020. However, this pessimistic outlook seems to have been priced into the stock.

Goose's stock is trading at 20 times trailing earnings. If earnings are cut in half this year, the forward price-to-earnings ratio is 40, which isn't bad for a company that was growing sales at 40% annually before the crisis.

Canada Goose also has enough dry powder to survive the crisis. Debt is only 72% of the value of equity. The company had $72 million in cash and cash equivalents on its books and a hefty profit margin going into this crisis. I believe it will survive the crisis.

However, investors may still be concerned about consumer appetite for Goose's notably expensive products after the lock down. The pandemic's impact on the economy is unprecedented, so predicting demand for luxury goods isn't easy. But a positive signal seems to have emerged last week.

2.7 million green flags

French luxury giant **Hermès** reopened its stores in Guangzhou, China last week. On the first day, sales surged to a record-breaking 19 million renminbi, or US$2.7 million. It seems Chinese consumers splurged on the brand's home and clothing products. Specifically, Birkin handbags were hot sellers.

China's lockdown has ended before the rest of the world, giving investors a glimpse into the future of the global economy. It appears that the shutdown has created pent-up demand for luxury goods — good news for Canada Goose.

Pent-up demand in China alone is good news. Chinese consumers account for roughly one-third of global luxury sales now. Goose opened its flagship store in Beijing last year, marking its entry into this critical market.

Much of the company's future growth plans hinge on demand from wealthy Chinese consumers. If they're buying Birkin bags now, they might be buying Goose jackets in the winter this year.

This trend could play out on a global scale. Wealthy shoppers could unleash pent-up demand on luxury goods that helps sustain brands like Canada Goose. Meanwhile, over-leveraged competitors will be driven out of business.

Foolish takeaway

Canada Goose has shed much of its market value over the past year. However, now the stock seems oversold. The company will survive this downturn and there seems to be pent-up demand for luxury goods on the other end of this shutdown.

Contrarian investors should probably consider this a bargain opportunity.

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