If You Don’t Buy Canada Goose (TSX:GOOS) Today, You’ll Kick Yourself Later

Description

Luxury retail brand **Canada Goose** (TSX:GOOS)(NYSE:GOOS) has staged a comeback in the last month. The stock is up over 80% since March 16, 2020. Prior to the upward spiral, the COVID-19 driven sell-off sent the stock lower by 60% in the first two-and-a-half months of 2020.

Investors were concerned over countrywide lockdowns that will ensure close to zero footfalls in brick-and-mortar retail stores. The dreaded virus has been decimated several other retail brands. Canada Goose stock is trading at $33.1 which is still 64% below its record high.

So is it time to buy shares of Canada Goose?

Canada Goose retail stores are open in China

Last month Canada Goose announced the closure of retail stores in Europe and North America. However, the number of COVID-19 cases in China is decelerating fast and the country has reopened its economy.

Asia and in particular mainland China is a huge market for Canada Goose. In the fiscal third quarter of 2020, company revenue in Asia more than doubled to $94.7 million, up from $46.4 million in the prior year. This growth was driven by a significant uptick in e-commerce sales. If sales in China return to normal levels, Canada Goose will be able to report better-than-expected numbers.

The retail giant has managed to create a recognizable and aspirational brand name over the years. There is a possibility that Canada Goose will experience a spike in sales due to pent-up demand once lockdown rules are lifted in other major geographies.

A profitable growth stock

Canada Goose’s high product prices have also driven profit margins higher. In the last reported quarter, Canada Goose’s operating margin stood at a healthy 23%. In the near-term, these margins will be squeezed as the company will want to reduce inventory. There may also be a decline in demand if unemployment rates move higher and if recession fears come true.

However, it seems the short-term headwinds are priced in. The stock is currently trading at a forward price to earnings multiple of 24.9. It has a forward price to sales multiple of 3.83, which is very reasonable for a growth company.

Analysts expect company sales to rise by 13.8% in fiscal 2020 (ended in March). Despite the ongoing slowdown, sales growth for fiscal 2021 is forecast at 5%. There is a good chance that Canada Goose sales will accelerate in fiscal 2022 and beyond.

While the company is grappling with slowing sales currently, it has asked 900 workers to return to work and manufacture medical gear for personnel fighting the coronavirus. These products will be sold at cost and any profits will be donated to relief funds, which is bound to improve its brand image.

What's next for Canada Goose investors?

For long-term investors, the recent weakness provides an opportunity to buy a top-quality stock at a discount. The company has focused on manufacturing quality products over the years. Right now, approximately 5% of Canadians own a Canada Goose jacket and this number should move higher given the brand's aspirational value.

China is a high growth market and the largest luxury market in the world. The increase in the purchasing power of the country's middle class will drive Canada Goose's top line in the upcoming decade.

The company's low valuation, high growth opportunity and expanding total addressable market make it an attractive buy at the current price.

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