Market Rally: Time to Buy Canada Goose (TSX:GOOS) Stock?

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) used to be the hottest stock in Canada. The coronavirus downturn took some wind out of its sails, but its long-term growth prospects remain intact. The latest market rally could send shares zooming again.

To be sure, there is risk here. The recent economic shock could lower retail spending through the rest of the year. That'll hurt Canada Goose, which relies on consumer spending for its fashion products. But the company isn't built to capitalize on the next 12 months. It's built to capitalize on the next 12 *years*.

If the market rally continues, expect Canada Goose shares to surge higher. Here's why.

Ready for the market rally

Canada Goose has always been a story about international growth. Founded in 1957, the company has had decades to penetrate the domestic market. Today, more than 5% of all Canadians own a Canada Goose jacket. That's an impressive figure considering the jackets often cost more than $1,000 apiece.

While Canadian sales last year still grew at double-digit rates, international revenue popped by more than 60%. North America still accounts for two-thirds of sales, so that's where the attention currently is, but long term, Europe and Asia will drive the story.

Here's the good news: European and Asian growth will take decades to fully tap. That means no matter what happens over the next six to 12 months, Canada Goose stock should be worth considerably more years down the line.

Year-to-date, however, shares are down nearly 30%, and that's *after* the recent market rally. This is a classic case of a long-term stock being punished by short-term headwinds.

Time to buy?

At today's prices, Canada Goose stock is barely pricing-in the decade-long opportunity it has to expand globally. In years past, shares were priced between 100 and 150 times earnings. Today, they're below 30 times earnings.

If the market rally is sustained, GOOS stock could see a rapid increase in its valuation to narrow this discount. Even a reversion to *half* of its historical valuation would cause the share price to double.

Just remember: the next 12 months could be rocky. High-growth stocks can see their valuation multiples fluctuate wildly during a market crash. If the market rally loses steam, shares could move lower yet again.

But if you invest for the long term, this isn't a worrisome problem. If Canada Goose replicates its domestic success abroad, the company could easily be *five times larger* than it is today. China is a perfect example. Despite being the largest luxury market in the world, with brand-conscious consumers, Canada Goose has only just begun its growth efforts there.

Before the pandemic began, management guided for long-term earnings per share growth of 25% per year. That guidance has been delayed, but once the coronavirus pandemic ends, earnings growth should normalize quickly. The market rally could accelerate this return to normal.

This stock is for patient investors only, but if you want a growth stock that you can buy and hold for a decade or more, start building a position in Canada Goose.

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