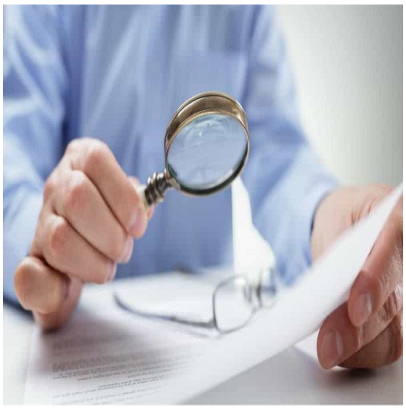

Will Canada Goose (TSX:GOOS) Stock Fall Below $20?

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) used to be a rapid-growth stock. Following its IPO in 2017, sales and profits were growing by more than 40% per year. Management released guidance that anticipated double-digit growth for years to come.

The biggest potential source of growth was Asia. China is the largest luxury market in the world, yet Canada Goose only has a few stores there. If the company can replicate its domestic success abroad, the stock price would explode in value.

But then came the coronavirus pandemic. The results were devastating. Consumer spending has collapsed, and economic fears plague luxury retail stocks like Canada Goose. The company's stock price has fallen by two-thirds.

After a slight rebound, GOOS stock now trades at $26 per share. In some scenarios, the share price could revert to $40 or higher on their way back towards the all-time highs of $90. There's another scenario, however, where shares sink back below $20.

What will the future hold for Canada Goose stock?

Here are the facts

Here's what we know. Before the crash, Canada Goose was growing like a weed. Canada and U.S. sales rose by more than 20% last year. International sales, meanwhile, rose by more than 60%. The future was clearly abroad.

The biggest opportunity was in China. The country's brand-conscious luxury market is a perfect fit for Canada Goose's $1,000 jackets. More than 5% of all Canadians own one of the company's jackets. Around 90% planned to buy another. The company was building a behemoth, with industry-leading margins and impressive customer loyalty.

Before the pandemic hit, GOOS stock traded as high as 150 times trailing earnings. Today, shares are priced at just 25 times earnings. What happened?

In February, Canada Goose stock fell 10% in a single day after management slashed its 2020 guidance.

“The coronavirus outbreak is having a material negative impact on performance in the current fiscal quarter ending March 29, 2020. As a result, the Company has revised its outlook for fiscal 2020,” executives revealed.

“The health crisis has resulted in a sharp decline in customer traffic and purchasing activity,” they continued. “Retail stores and e-commerce across Greater China have and continue to experience significant reductions in revenue. Due to global travel disruptions, retail stores in international shopping destinations in North America and Europe are also affected.”

Management tried to paint an optimistic picture by saying they “remain confident in our strategy and long-term potential,” but the stock market sold the stock heavily. Today, Canada Goose stock is cheaper than it’s ever been.

Buy Canada Goose stock?

It’s not all bad news. In that same press release, the company noted that strong international growth that quarter was “led by a standout performance in Asia, where revenue doubled to $94.7 million from $46.4 million.” Of course, those results were from *before* the pandemic began. But they do suggest what the company can achieve after a return to normal.

At some point, Canada Goose stock will be a buy. It has an entrenched brand reputation backed by decades of history. The first Canadian to summit Mount Everest wore its gear. The scientists in Antarctica also sport Canada Goose jackets. China’s luxury market will revert higher at some point, and when it does, Canada Goose will be ready to capitalize.

But the question is when that future will arrive. At the end of 2020? In early 2022? No one knows.

Predicting the price movements of GOOS stock over the short term is an impossible game at present. There may still be opportunity for long-term investors, but be prepared to buy and hold for as long as it takes to exit the current downturn in consumer spending.

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