Canada Goose (TSX:GOOS) Just Soared 29%: Should You Buy the Bounce?

Description

Don't look now, but **Canada Goose** (TSX:GOOS)(NYSE:GOOS) stock is back, surging 29% in three trading sessions in a broader rotation back into the "at-risk" consumer discretionary names that were most vulnerable to COVID-19 shutdowns.

The maker of those luxury down-based parkas also noted its intention to lower its reliance on department stores and focus on its omnichannel direct-to-consumer (DTC) approach to bolster profit margins amid its recovery. Since Canada Goose stock peaked in late 2018, shares have imploded, losing over 77% in the March 2020 trough. Today, shares are still down 63% from all-time highs, as the firm looks to bounce back in conjunction with the Canadian economy.

Canada Goose: the case for getting back into "at-risk" stocks

While there's no question that $1,100 parka makers are the last place you'd want to be invested in heading into one of the worst recessions in a dozen years, one has to remember that the stock market is forward-looking and that the damage that's already been done to shares may already have factored more than just a recession.

Canada Goose stock essentially got cut in half, twice.

And while it could get cut in half again (and possibly again), if the coronavirus propels us into a depressionary environment, I think that at these depths, given the excess pessimism baked in, that the risk/reward tradeoff is favourable for contrarians with a long-term horizon and willing to go against the grain.

Manufacturers of luxury goods tend to take the brunt of the damage, as investors brace for an economic downturn. Canada Goose is a super-cyclical, but once the bull market comes roaring, shares are capable of multi-bagger numbers that are only capturable by contrarians willing to jump in at the worst possible time. The bull argument is that a majority, if not all, of the damage, has already been done to the Goose and that the reality of the situation may not be nearly as bleak as most investors expect.

If you've got a stock that's priced with the expectation of a depression and the economic downturn ends up being more of a mild recession, you could have a name that could be subject to an upside correction.

Buying a super-cyclical at the depths could be a ticket to multi-bagger gains

As we witnessed over the past week, Canada Goose could fly high in a hurry. If you try to time it, there's a good chance you'll miss out on a majority of the gains. As the broader rotation out of defensives into at-risk names continues to be the theme, I think it'd be wise to consider nibbling into a position, assuming the rest of your portfolio is sufficiently defensive.

In a prior piece, I'd urged investors to consider adopting a COVID-19 "barbell" approach to portfolio construction so that they'll benefit from a rotation back into at-risk names while maintaining a stable defensive foundation in case the insidious coronavirus sparks another wave of shutdowns, severely exacerbating the recession that we find ourselves in today.

Canada Goose is a risky bet, but it's one with tremendous potential rewards, especially with shares trading at unprecedented depths.

Foolish takeaway

At the time of writing, GOOS trades at 6.4 times book and 13.18 times EV/EBITDA, which is a pretty low price to pay for a company that's still in the early innings of its long-term growth story.

The company has a decent liquidity position and a stellar solvency position with a 0.76 quick ratio and a 2.3 current ratio. With a manageable amount of debt on the balance sheet, Canada Goose is going to survive the coronavirus typhoon, and it will come roaring back when the economy is reopened for business.

If you've got the time horizon and the stomach for volatility, GOOS is a prudent contrarian bet, especially if you're of the belief that a second wave of coronavirus infections won't be in the cards.

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