Why Did Canada Goose (TSX:GOOS) Stock Plunge 7%?

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) was once worth nearly $10 billion. Due to COVID-19, its market cap has shrunk to less than $4 billion.

Last week, shares plunged 7%, one of the worst weeks on record. What happened? Is this your chance to buy low?

Here's the deal

Canada Goose went public in 2017 at $23. By 2018, the stock price surpassed $90. Why the sudden surge?

Despite recently going public, the company has a multi-decade history. It was founded in 1957 by Sam Tick in a warehouse in Toronto. It was originally called Metro Sportswear.

In its first years of operations, Tick experimented with various lines of outdoor clothing. It didn't take long for Canada Goose to embed itself into retail history. The first Canadian to summit Mount Everest donned its gear. The company's most popular item, its Expedition Parka, was designed for scientists stationed in Antarctica.

The company's clothing isn't cheap. The aforementioned Expedition Parka can cost more than $1,000. Many of its flagship items are in the same price range. But the company is known for quality, not affordability. If you want the best, you go with Canada Goose. Research shows that 90% of its buyers intend to return to the company for their next winter jacket purchase.

This history and reputation provided years of growth in North America. Today, more than 5% of Canadians own a Canada Goose jacket. It was only a matter of time before the company went global. In 2019, international sales exploded higher by 61%. China, the biggest luxury market in the world, held high potential. Shares traded as high as 150 times earnings, with the market anticipating a long runway for global growth.

The COVID-19 crisis upended this growth narrative. Retail spending has fallen off a cliff. Retail foot traffic has evaporated. Expansion plans have been delayed. The fallout is still being felt, with last week's performance a testament to the ongoing struggles.

GOOS stock is now priced at 20 times trailing earnings, a substantial discount to its historical range.

Should you buy Canada Goose stock?

The COVID-19 situation may be difficult, but it can't erase the company's multi-decade history and stellar reputation. When conditions normalize, expect growth rates to return to normal. If that occurs, shares should fetch a 40 times earnings multiple, even though that still represents a historical discount.

Over the last 12 months, Canada Goose earned $1.42 per share. Shares trade at $29 apiece. If conditions normalized today, shares would likely double in price.

A rapid return to normal, however, shouldn't be anticipated. It could take years to return to baseline. Let's assume a dip in earnings for multiple years, with EPS not returning to previous highs until 2024.

If the company earned $1.42 per share in 2024 and was priced at 40 times earnings, the stock price would be roughly $57. Over a four-year time horizon, that amounts to an 18.4% annual return. Not bad!

The key here is *patience*. No one knows when Canada Goose's growth rate will normalize, but given its history, it's a solid bet that it will eventually return to its formal glory. Four years seems like a reasonable time frame to bet on a recovery. If you can buy and hold, this looks like a great opportunity to profit.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2020/06/05
Author
rvanzo