Buy Alert: The Top Reason to Buy Canada Goose (TSX:GOOS) Stock Right Now

Description

Canada Goose (TSX:GOOS)(NYSE:GOOS) stock has had a rough few years. The retailer has lost nearly 65% of its value since late 2018. It now trades just 40% higher than its initial public offering price in 2017.

Investors in GOOS stock did not expect this. The luxury retailer was supposed to be a high-margin, high-growth, long-term opportunity. Instead, it has underperformed the **TSX 60 index** since going public. At its current price, there seems to be a clear reason for long-term investors to dive in.

Sales in China

China is the most pivotal market for luxury retailers across the world. From Louie Vuitton to Bugatti, Chinese buyers buy more luxury items than any other cohort. In fact, some estimates suggest the country constitutes one-third of the global market for luxury goods. Rising income and a lack of domestic luxury brands drives much of China's lust for exotic foreign luxury.

Canada Goose is, by all means, a luxury brand. Over the past few years, the company's gross margin has fluctuated between 62.23% and 40.57%. The median was 55.67%. Meanwhile, the company's outerwear and winter jackets are far more expensive than the average brand.

In other words, GOOS stock is driven by luxury consumers. However, the company has only recently entered the market. Its first store in China opened last year. Then the pandemic erupted, and the company's global footprint was shut down. Now, China's economy is reopening faster and earlier than most other countries. The company can resume its expansion.

GOOS stock valuation

Growth in China should drive GOOS stock for many years to come. The skiing sector in the country is worth US$3.9 billion in 2020. The winter wear market could be far larger than the United States's US$40 billion. Capturing just 1% of this market could *double GOOS stock's valuation.*

Considering how popular the brand is in Hong Kong, I'm optimistic about its prospects in China. That alone is a great reason to buy the stock.

Other reasons to buy GOOS stock include a gradual reopening of the North American market, recovering supply chains, and a low valuation. The stock currently trades at 23 times trailing earnings per share and 3.67 times annual revenue per share. That's a bargain for a robust brand with such bright prospects.

In fact, my Fool colleague Ryan Vanzo believes the stock could have nearly 100% upside at current levels. I agree. The company could unlock value sooner than most expect.

Foolish takeaway

Canada Goose stock has gradually lost value for two years. Now, the price seems disconnected from the company's growth prospects and underlying earnings. Perhaps the best reason to buy GOOS stock is its prospects in China.

China's affluent consumers drive the global luxury market. Demand for Canada Goose's expensive jackets and scarves is already intense in Hong Kong. As the brand expands to China, sales and profits could multiply tremendously. The current stock price doesn't seem to reflect this.

Long-term investors seeking a growth opportunity at reasonable valuations should keep an eye on GOOS stock.

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