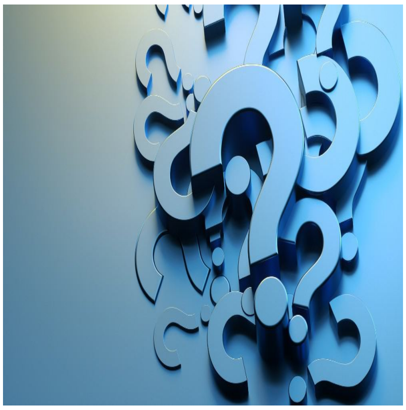

Should You Buy Canada Goose (TSX:GOOS) Stock Now?

Description

The pandemic hit **Canada Goose** (TSX:GOOS)(NYSE:GOOS) sales and profit in its first quarter. In the three-month period ended June 28, the luxury parka maker posted revenues of $26.1 million, higher than the $15.3 million expected by analysts polled by FactSet, but still well below $71.1 million last year. The quarter was marked by widespread closures due to the pandemic.

Canada Goose's net loss widened to $ 50.1 million, or $0.46 per share. In the first quarter last year, the company lost $29.4 million, or $0.27 per share.

Excluding one-time items, the company adjusted loss was $38.4 million, or $0.35 per share, compared to an adjusted loss of $22.8 million, or $0.21 per share, a year ago. Analysts polled by FactSet had expected a loss of $0.31 per share. Canada Goose has cut spending and investments by $90 million.

The retailer is seeing signs of recovery

In a statement, Canada Goose President and CEO Dani Reiss said he was starting to see signs of recovery around the world as the company entered its most important season of the year.

Canada Goose said it would cut production and open fewer new stores this year, as the luxury parka maker tackles coronavirus-induced pressure on its business that has weighed on sales.

The company strengthened its direct-to-consumer sales strategy, increasing investment in e-commerce.

The luxury parka maker will invest more in its online business to prepare for a busy fall/winter season as reopened retail stores have seen a slow recovery in sales. It is also spending money earlier than expected on e-commerce enhancements, including a "cross-border solution" to reach more international customers.

Canada Goose, which has resumed making parkas, said its overall production this year will be one-third of 2020 production, as it aims to reduce inventory levels by the end of the year.

Dani Reiss said in an interview with The Globe and Mail last month that manufacturing products in Canada give the company more flexibility to manage its inventory compared to others that rely on foreign suppliers. He said: “We can react faster. If there’s a shift in demand, we’re able to make smaller runs of styles, closer to the season. We’re self-reliant, that’s the biggest thing. We’re not reliant on a third party to bring us goods.”

The peak of the crisis hit the company in its quieter season, with parka orders tending to increase closer to the winter months. While 21 of 22 Canada Goose stores have now reopened and performance is improving, the Toronto-based outerwear brand said it also expected a “significant” drop in revenue in the second quarter as its products would be mostly out of season.

China market has massive potential

As Canada Goose gears up for its busiest fall-winter sales season, it will focus on opening new stores in China, where the economy opened earlier than in other parts of the world and where shopping traffic has started to pick up.

The market doesn’t appreciate Canada Goose’s China potential. UBS analyst Jay Sole said that the company could generate compound annual sales growth of 25% in China over the next five years.

UBS Evidence Lab’s Global Luxury Goods Consumers Survey found that 50% of Chinese consumers are aware of Canada Goose, which is higher than its awareness score of 43% in the United States.

Sole said Canada Goose’s awareness among Chinese consumers is higher than that of its main competitor Moncler. He wrote in a note: “Softline companies with premium, global brands, and large, financially strong direct-to-consumer (DTC) businesses are best positioned to thrive in the rapidly changing retail landscape.”

Four new stores that opened in Chengdu in June exceeded the company’s expectations.

Canada Goose still has good long-term prospects

Canada Goose is facing short-term challenges due to the pandemic, but growth will resume next year. Revenue is expected to increase by 26.8% to $1.1 billion while EPS is estimated to grow by 84.3% to $1.53 per share.

The retailer still has good long-term prospects but as sales will be lower in the second quarter, it’s best to wait before buying shares.

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