Why Did Canada Goose (TSX:GOOS) Stock Spike 60%?

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) shares are surging. Since March, they're up nearly 60%. The gains could continue, as the stock price remains 70% below its former highs.

Why are shares spiking? More important, how can you take advantage?

Know what you're buying

Canada Goose is a company full of history. It was founded in 1957 by an outdoorsman in Toronto. Over the decades, the brand would outfit some incredible personalities. The first Canadian to summit Mount Everest donned its gear. Its revered winter parka was designed specifically for scientists in Antarctica.

Over time, more than 5% of all Canadians purchased one of the company's products. That's impressive as many of its jackets cost more than $1,000. This is a highly reputable brand, one consumers know and love.

All of this culminated with an initial public offering. In 2017, Canada Goose went public at $23 per share. Within 18 months, shares nearly quadrupled! Growth was staggering for a retail stock, with earnings and sales increasing by 30% per year.

Most impressively, international sales were growing by more than 60% per year. These sales composed just one-third of total revenue, but over time, had the potential to more than triple the size of the company. This potential forced the stock towards all-time highs.

Then the COVID-19 pandemic hit. China, the biggest luxury market in the world, a perfect fit for the company's high-priced outerwear, went into lockdown. Suddenly, Canada Goose's golden goose evaporated. Domestic growth plunged. International growth fell even more.

Today, shares trade at $32 a 70% discount to former highs. And that's *after* the recent surge.

The valuation looks intriguing. This stock used to regularly trade between 100 and 150 times earnings. That multiple is now closer to 40 times earnings. While that's not crazy cheap, it might be low enough to warrant a position.

Buy Canada Goose stock?

Are you willing to think long term? Then Canada Goose stock might be for you.

But if you're unwilling to take a multi-year time horizon, stay away.The reason for this is simple: no one knows when the COVID-19 crisis will subside.

Even if a vaccine is discovered tomorrow, it could take nearly a year for manufacturing and distribution capabilities to scale. Only then would vaccinations occur at scale. And we still don't know how long after that it will take for consumer spending to normalize.

But here's what we do know: Canada Goose will survive and eventually thrive. The proof is in its recent quarterly earnings.

"Last quarter, Canada Goose posted a surprise profit," I recently wrote. "Analysts were expecting a multi-million dollar loss."

That profit was a huge signal of confidence. Even if it takes years to return to normal, shareholders can hold steady.

Once conditions improve, the company's growth opportunities should kick back in. China is still the largest luxury market in the world. Penetration of Canada Goose products in these lucrative markets remains well below that of the U.S. or Canada.

Canada Goose has a long runway for growth. This decade, shares should more than triple. To take advantage, all you need is patience.

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rvanzo