Canada Goose (TSX:GOOS) Stock: Should You Buy at $30?

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) stock is surging. Since March, shares are up nearly 50%. Last week, they jumped above $30.

But here's the thing: the stock is still 70% *below* its all-time high. Shares could triple and still not surpass those former levels.

After years of rapid growth, Canada Goose is now priced at a discount. Should you jump in?

Trouble is here

The coronavirus has been difficult for this retail stock. Canada and the U.S. are the company's biggest markets, meaning retail shutdowns and travel restrictions in both countries have pressured sales.

Before the pandemic began, sales and earnings were growing by 30% per year. Now, the company is barely breaking even. Revenue came in at $26 million last quarter, a 60% decline year-over-year.

Most concerning was a compression in gross margins, which fell to 48% versus 58% a year ago. Canada Goose previously led the industry when it came to profitability. This misstep should be closely monitored, as it's a direct reflection of how well the company is managed, and how highly consumers prize the brand.

It appears as if the company is anticipating a difficult winter.

"Manufacturing of Canada Goose's signature down-filled jackets has restarted for the fall/winter season on a limited basis and is expected to be one-third of last year's," reports *Fox Business*. "The company will work to greatly reduce inventory by yearend."

This could be a massive blow considering this is traditionally its best quarter of operations. Sluggish winter sales could set up the company for a difficult 2021.

Buy Canada Goose stock?

By this point, you may be wondering: why would anyone want to own this stock? You're not alone. But as Warren Buffett advises, sometimes the best time to buy is when others are fearful.

Let's look at the valuation. After all, your returns will ultimately be a function of what you pay.

Pre-pandemic, GOOS stock consistently traded above 100 times earnings. Today, shares trade at 40 times earnings. And those are *depressed* earnings. If profits reemerge after conditions normalize, today's valuation will look even more lucrative.

So, you're certainly paying a lower price for the current Canada Goose business to reflect the coronavirus challenges. But what about the long-term picture?

International growth was always the company's secret weapon. Last year, sales outside of North America grew by 61%. China, the largest luxury market in the world, was of particular value considering the brand barely had a presence there. Some analysts thought China alone could double the size of the company.

Of course, COVID-19 began in China, hitting retail sales hard. However, the worst may be behind us. Executives recently stressed that they still aim to double their retail footprint in Mainland China.

"Overall, the retail recovery in Mainland China is ahead of other regions, and so serving the world's largest luxury consumer at home has become increasingly crucial," noted Canada Goose's CEO. "We believe that our strategic approach to growing our Mainland China DTC business this year has us very much on the right track."

The key here is patience. If you're willing to look several years down the road, Canada Goose stock looks like a bargain at $30.

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