Canada Goose (TSX:GOOS) Stock Is Deeply Discounted With Huge Upside

Description

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) had an initial public offering to remember a few years ago. Shares of the luxury parka maker stormed out of the gate, more than quadrupling over two years. Fast-forward to today and shares have come crashing down, losing over 77% of their value from the November 2018 peak to the March 2020 trough.

Canada Goose was falling into a tailspin well before the COVID-19 crisis hit. With central banks worldwide trying to stop this coronavirus recession from evolving into a depression, it's not a mystery as to why the appetite for shares of the nice-to-have discretionaries has fallen heavily out of favour.

It's hard to believe that just two years ago, people were all over Canada Goose's $1,200 parkas. Today, the demand for such Veblen goods ("status goods" that see their demand increase in conjunction with price) is heavily out of favour, and that's precisely why I'd look to initiate a contrarian position in a name like Canada Goose while it's in the doghouse.

Big booms and busts

You see, extremely discretionary plays like Canada Goose tend to have huge booms and busts. When the economy is roaring, Canada Goose could enrich many over a concise period. But when times are bad, investors stand to lose their shirts. At this juncture, I believe Canada Goose is near a point of maximum pessimism and think longer-term investors have a tonne to gain from a company that's poised for another boom once the economy heals from this crisis.

Canada Goose CEO Dani Reiss is an exceptional manager worth betting on. Reiss has been able to find the perfect formula for driving efficiencies, with minimal marketing expenditures relative to most other firms in the business of selling luxury products. The Canada Goose story, I believe, is still in its early chapters. The Asian market is a huge source of long-term growth, and this latest crisis, although severe, could prove to be just a bump in the road in the grander scheme of things.

Canada Goose suffers a pandemic-plagued quarter

The COVID-19 pandemic has been salt in the wounds of an already ailing firm. For the fiscal fourth quarter, revenues plunged 10% year over year as the company reported an adjusted loss of $0.12 per share, down from a per-share profit of $0.10 year-over-year. Canada Goose's business in Asia (which typically accounts for around a fifth of revenues), a significant source of long-term growth, took a beating for the quarter.

The worst of the pandemic also coincided with a period of seasonal weakness, as outerwear sales tend to be lacklustre heading into the spring and summer months.

In response to the profound weakness, management beefed up its cash position amid expenditure cuts. Management believes it has the liquidity and cash flows in place to weather a worsening of this pandemic. Even once the pandemic ends, Canada Goose will likely see a slower recovery depending on the severity of the recession.

Regardless, Canada Goose stock is severely undervalued with excessive negativity already baked in. The company has a powerful brand that, in time, will come roaring back, enriching contrarians who stuck by the name through its times of turmoil.

Foolish takeaway

At the time of writing, shares trade at 7.6 times book value. Shares could become much cheaper in a worsening of this pandemic. Still, given the magnitude of growth you're getting from Canada Goose, I'd say now is a great time to start scaling into a position before the economy has a chance to recovery.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date
2025/09/09
Date Created
2020/09/08
Author
joefrenette