Why Did Canada Goose (TSX:GOOS) Stock Surge 57%?

### Description

**Canada Goose** (TSX:GOOS)(NYSE:GOOS) stock is wild.

At the start of 2020, shares were priced at $50. When COVID-19 hit, the stock cratered to $20. The market worried that shares would continue sinking for months to come.

Then something incredible happened: Canada Goose stock surged back towards the $50 mark. The stock is now closing in on multi-year highs.

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What caused this sudden rebound?

## Investors were skeptical

Canada Goose stock was falling even before the pandemic hit. In 2018, shares were priced above $90. By the start of 2019, they were valued at $60.

The fall wasn't due to weak results as much as overly optimistic expectations. When the company first went public, shares tripled in just 18 months. The market fell in love with the stock, sending the valuation soaring above 100 times earnings.

As with many growth stocks, expectations eventually came down to earth. Canada Goose was still growing earnings by 30% per year at the start of 2019, but the valuation multiple was simply too high, forcing a brief correction.

If it weren't for the pandemic, shares would have been a bargain. Unfortunately, the COVID-19 situation hit Canada Goose where it was weakest: China.

Roughly one-third of the company's sales come from Canada. Another third comes from the United States. The rest come from international locations, with China being the biggest opportunity. That country is the biggest luxury market in the world — a perfect fit for Canada Goose's $1,000 high-end jackets.

You likely know that the coronavirus began in China, sending retail sales growth off a cliff. That's why shares plummeted from $50 to $20.

But why has the stock rebounded?

## Will Canada Goose rise more?

If you want to bet on this stock, you must understand the recent rebound.

Shares were overpriced in 2018, but this summer, sentiment swung too hard the other way. In August, I'd suggested shares were a buy due to valuation.

"Of course, COVID-19 began in China, hitting retail sales hard. However, the worst may be behind us," I explained.

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At the time, Canada Goose executives were already claiming that growth in China was picking up.

"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," its CEO revealed. "We believe that our strategic approach to growing our Mainland China DTC business this year has us very much on the right track."

It took a few months for the market to catch on, but Canada Goose had become a growth stock again. The valuation multiple compressed from 100 times earnings to just 20 times earnings, yet sales and profits were still expected to grow by 20% annually. That was a mismatch worth buying.

There's only one question left: Is there still time to bet on Canada Goose?

If you're a long-term holder, this stock still has more to give. Domestic sales continue to grow — an impressive feat considering the company has industry-leading margins.

Looking further out, Canada Goose could triple in size based on international expansion alone. Just know this will take a few years to play out.

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