It’s Time to Dump Aritzia Inc.

Description

Aritzia Inc. (TSX:ATZ) is falling below its IPO price after the company reported a less than impressive Q3 earnings report. I believe the stock is going to fall further because the company is in the unpredictable retail fashion industry, which could head south very fast.

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In the latest Q3 earnings, Aritzia saw an $8.1 million loss on a one-time charge and a 20% year-over-year sales increase. Although the sales increase sounds promising, it’s important to note that sales in the fashion retail industry tend to fluctuate by large amounts depending on a ridiculous number of factors. Just because the last quarter saw a huge increase in sales doesn’t mean the next quarter will be as strong. Aritzia has a history of seeing huge ups and downs, so there is no reason to get excited when you see an increase in sales for a particular quarter.

It’s almost impossible to forecast where earnings are going in the long term. I believe the fashion retail business is even more unpredictable than the highest-flying tech stocks. What’s in fashion one day could be out of fashion the next day, and in the retail fashion business, this could mean an excess of inventory for a particular product.

Warren Buffett likes his businesses simple with predictable earnings. Artizia is anything but predictable. It’s pretty much a speculative gamble as to whether Aritzia will be the next big thing or a member of Canada’s fashion retail graveyard. I’m not going to wait to find out, especially considering the fact that the stock pays no dividend.

Aritzia also commands high prices for its clothing that are of mediocre quality. If an economic downturn happens, Aritzia will get completely obliterated because nobody in their right mind would buy this kind of product when times are tough. The fashion retail industry is as cyclical as it gets, and if a recession does happen, Aritzia could lose over 70% of its value.

Private investors are selling shares

It’s only been a few months since the IPO and private investors are already starting to sell shares. For the average investor, this has got to be ringing alarm bells. Do these investors know something thatyou don’t?

The only thing predictable about Aritzia is volatility and declining gross margins. Gross margins have been decreasing each year for the last few years. Even if sales continue to increase, this trend is very disturbing and could send the stock crashing if sales suddenly go south in an upcoming quarter.

I believe the company is extremely risky and could be set for a much larger decline as we head into the latter part of 2017. Investors hungry for an IPO will have to wait even longer because Aritzia is uninvestable because of its dual-class share structure, according to Kevin O’Leary. Aritzia’s future will be full of volatility and uncertainty in a sector that is extremely vulnerable to economic downturns.

If you’re looking for a growth stock with a huge upside, then look elsewhere. There’s no value to be had in buying shares of Aritzia right now.

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