Aritzia Inc.: Analysts See 60% Upside

Description

Veteran finance reporter Barry Critchley recently wrote an article in the *Financial Post* about specialty fashion retailer **Aritzia Inc.** (TSX:ATZ).

The article title says it all: "Aritzia stock dips below key milestone after impressive debut, but analysts still see a buy."

Critchley is a good finance reporter, so let's not shoot the messenger. The article was simply trying to convey the fact that all eight analysts currently covering Aritzia and who provide a 12-month target price on its stock are bullish on its prospects in the months ahead.

He isn't recommending Aritzia stock; analysts are.

According to Critchley, the eight analysts have price targets between $22 and $26 over the next 12 months, representing upside potential of 38% on the low side to 63% on the high side. You have to like those numbers.

For the record, I'm a big Aritzia bear. I've written several articles on the Fool.ca questioning owning its stock. That said, I've also recently highlighted some of the reasons why you might choose to be a buyer rather than a seller, including the fact that it's got strong comps.

Numbers don't lie … until they do.

My problem isn't with average investors who see all the good news surrounding Aritzia, including Critchley's piece, and buy its stock as a result. It's about blindly following my word or that of anyone else, including the analysts, without honestly considering both sides of the argument.

Yes, analysts are high on Aritzia, but data shows they're positive about almost every stock that trades on the TSX or S&P 500 — according to FactSet only 6% of S&P 500 stocks have a "Sell" or "Underweight" rating — so their seal of approval isn't worth the paper it's written on.

"As a portfolio manager and strategist, the rating means little to me," Belpointe Asset Management chief strategist David Nelson recently said while appearing on CNBC. "Some of my best longs are rated sell by the investment community."

So, remember Nelson's words of wisdom as you contemplate if Aritzia stock is a value play at less than $16.

If you are serious about buying its stock, at least do yourself a favour and visit the nearest location and spend some time in the store. If you're reading this and you're not a woman, you might want to go with your wife or a female friend who likes the clothing.

I've been three times since the beginning of December with a female friend of mine, and every time I've stepped into the store, I've seen young employees talking to each other while customers are begging for service — this despite having an industry-leading $1,400 in sales per square foot. Incredible.

Ignore bad service at your peril because every higher-priced retailer that forgets the cardinal rule eventually gets taken down a notch or two by consumers — I believe Aritzia is in this category.

Another thing to remember when looking at any stock, whether it's Aritzia or some other popular company, such as **Canopy Growth Corp.,** is that analysts are paid to promote these stocks; not directly, mind you, but from the investment banking fees their firms receive for advising clients on potential acquisitions, IPOs, etc.

Although there is a so-called Chinese Wall between research and investment banking that keeps the two groups from communicating with each other to prevent conflicts of interest, studies have shown that, despite efforts by regulators to clean this up, it still happens.

Analysts might think Aritzia is going to $26, but that doesn't mean you should too.

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