



## Is Aritzia Inc. Going to Be Buried in the Canadian Retail Graveyard?

### Description

**Aritzia Inc.** ([TSX:ATZ](#)) has fallen a fair amount since its IPO late last year. The company is in the general fashion industry, which is incredibly cyclical, and could face a very tough time during the next economic downturn. The retail industry isn't the most popular place to invest in right now. Brick and mortar stores are quickly going out of fashion, and the management team at Aritzia is going to need to continue to invest in same-store-sales growth initiatives or be left for dead in the Canadian retail graveyard.

You may be tempted to buy shares of Aritzia after seeing that many analysts have 12-month price targets at \$23 and above. That represents a whopping 64% upside from current levels! I wouldn't recommend following analyst price targets without doing your own homework first. Why are these analysts so bullish on Aritzia? Is the stock really undervalued?

Aritzia currently trades at an 11.03 price-to-earnings multiple, which seems really cheap, especially for a company with ambitious expansion plans. The management team plans to take aim at the U.S. market over the next few years, which I believe is a terrific move, especially considering consumer spending will be on the rise thanks to a stronger U.S. economy under the Trump administration.

If things go according to plan, then sure, Aritzia has the potential to provide huge returns to shareholders. But with these huge returns comes a gigantic amount of risk.

It's extremely difficult to predict the future of Aritzia. Warren Buffett likes simple businesses that he knows will see respectable earnings growth over the course of a decade. With Aritzia, it's impossible to tell if the company will see increased or decreased earnings in a decade from now. The general retail fashion industry is incredibly fickle. A fantastic quarter could be followed by a disastrous one, so huge amounts of volatility can be expected with this name.

Aritzia sells a huge assortment of different items that may be vulnerable to sudden changes in fashion. If a particular piece of clothing goes out of fashion, then Aritzia will be stuck with excess inventory for that product and be forced to aggressively discount, which will hurt margins.

What's in fashion today might not be in fashion tomorrow, and this is a huge risk that could drag the

stock of Aritzia into the abyss. Nobody knows what's going to be in fashion tomorrow, and it's impossible to tell how long a particular fashion will remain a top seller.

Although analysts have nothing but praise for the company, I'd stick on the sidelines. Though I don't think Aritzia will be the next company to be buried in the retail graveyard, it's one of the better-run fashion retailers out there. My problem is not with the management team; it's with the industry. It's way too risky for my liking; the stock could half as easily as it could double, and the struggling retail environment definitely won't help Aritzia in the medium term.

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