



Is More Downside Ahead for Aritzia Inc.?

Description

Shares of **Aritzia Inc.** ([TSX:ATZ](#)) can't seem to form a sustained rally as investors continue to dump their shares of the high-risk, high-growth woman's clothing retailer.

Is insider selling a cause for concern?

Many insiders have also been discarding their shares with the latest being David John Maciver, who sold 8,244 shares for an average price of \$14.64 on Monday, July 10. This is not a sign of good things to come, especially with Aritzia set to report its fiscal Q1 2018 results.

The cause of insider selling can happen for a number of reasons. The insider may need money for a family emergency, but selling so close to an earnings release has to be raising alarm bells for investors. Does the insider know something that we don't? It's possible, but this doesn't mean the quarter will be a disaster. In general, I would never advise taking a large position before an earnings report.

Aritzia could have had a great quarter, which could cause the stock to move up in the short term, but I wouldn't think too much of it and neither should you. The fashion retail industry is ridiculously unpredictable, and a great quarter doesn't necessarily mean the start of an upward trend.

But the same goes both ways — a bad quarter could be followed by an outstanding one. It's really difficult to judge how the company will do since it's nearly impossible to forecast how a particular fashion will do in a given quarter.

Overly bullish analysts?

Although the general public has been bearish on the fashion retail industry in general, many analysts seem to still be extremely bullish on Aritzia with an average buy rating and a consensus price target of \$22.57, which represents a whopping 54% upside from current levels.

Before you back up the truck to load up on Aritzia share, it's important to always be skeptical of analyst price targets, especially if the implied upside seems too good to be true, because in some cases, it

usually is. Analysts have been lowering their price targets on the stock in recent months, and I believe more downgrades can be expected as the implied upside grows as the stock continues its decline into the abyss.

Shares are ridiculously cheap, but could they get even cheaper?

The stock currently trades at a mere 10.77 price-to-earnings multiple, but that doesn't necessarily mean there's a margin of safety involved with an investment at current levels.

Retail is a difficult place to be in, but fashion retail is an extremely cutthroat environment to thrive in. Although Aritzia has a competent management team and fairly decent margins, I believe there will always be a huge cloud of uncertainty following the business.

With uncertainty comes volatility, so if you're comfortable with that and you're a fan of Aritzia's brand, then you might want to nip away at shares incrementally over time. Personally, I'm on the sidelines because fashion retail is just too risky for me.

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