Aritzia Inc. Delivers Strong Quarterly Results: Shares Plunge Anyway

Description

Aritzia Inc. (TSX:ATZ) delivered terrific first-quarter 2018 results which saw profit increase 4.9% to $8.1 million and sales increase 14.7% to $145 million. The company is planning to open several new stores in the coming months, and e-commerce growth has reportedly been strong. It was a very solid quarter for the general fashion retailer, but investors still weren't impressed as the stock continued on its negative trajectory.

In previous pieces, I've mentioned that general fashion retail business was fickle, unpredictable, and that investors should ignore overly bullish analyst price targets on the stock. It's tough to judge how a specific fashion design will do in a given quarter, so a solid quarter like the one the company just released is really nothing to get too excited about. However, it's quite strange that a company would sell off so harshly following what appeared to be a decent quarter. Unlike analysts, investors are taking a long-term view of the company, so it's going to take a lot more than a solid quarter to send shares into the green.

Many insiders sold the stock and analyst price target downgrades came from all over the place over the last few weeks. These are discouraging signs for investors looking to jump into the stock, even if a promising quarter is released.

Let's face it. The general public was overly bullish this earnings season, and our expectations have gotten quite unrealistic. Many other companies have reported solid earnings, but if there was one imperfection present, the stock would take a short-term plunge, when in reality the stock should have responded in a more positive manner.

Sure, Aritzia is in the scary business of fashion retail, but that doesn't mean its fate will be bankruptcy sometime over the next few years. The management team at Aritzia is quite creative and has done a terrific job of expanding cautiously in a harsh environment where many fashion retailers are going belly up.

Aritzia has over 80 stores and plans to open two new locations in Chicago and Toronto by the end of August. The management team is clearly taking a slow and calculated approach to expansion, and I think this is the right way to go especially as other retailers continue to close their doors thanks to the rising pressures brought forth by digital retailers.

Bottom line

Aritzia isn't doing as bad as its stock price would suggest, but investors are still fearful because of the industry it's in. Although the management team is competent, I don't think it will matter over the long term as the retail space continues to get uglier.

Although ridiculously cheap with a 10 price-to-earnings multiple, the company is dangerously cyclical and could be in big trouble once the next recession arrives. The long-term headwinds are just too much for me, no matter how cheap the stock is.

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