Aritzia Inc. Shows Good Growth in Q2: Is the Stock a Buy?

Description

Aritzia Inc. (TSX:ATZ) released its second-quarter earnings on Thursday, which saw the company post adjusted earnings per share (EPS) of $0.09 compared to $0.08 a year ago. Net revenue for the quarter was also up more than 10% from the previous year with sales totaling $174 million.
Let's dig a bit deeper into the earnings report to see if the stock is a good buy today.

Revenue growth driven by new stores

The company's comparable sales growth was just 5.4%, down significantly from the 16.4% growth it saw a year ago. A big portion of the increase in total revenue came from new store openings, as Aritzia opened eight new locations in the past year. The company carefully chooses its locations, and that gives it a lot of options for potential growth. Aritzia has already opened a Babaton store in Vancouver in Q3 and plans another two more store openings before the end of the fiscal year.

Given the struggles that many retailers have run into in the past year, comparable sales growth of over 5% may not be a bad result, despite being a big drop off from the previous year.

Gross margins have increased

The company's adjusted gross margin increased from 35.9% a year ago to 37.4% this quarter, as Aritzia focused on product cost reductions and lower markdowns. The latter is impressive when you consider that Aritzia saw a decent growth in its existing sales. It's a good sign that while retailers are struggling, Aritzia has been able to increase its margins and still grow sales.

A look at the stock's value today

Aritzia was listed on the TSX almost a year ago today, and in that year, it has seen its share price drop over 17%. The stock is trading at more than seven times its book value, and if it were to achieve even a price-to-earnings multiple of 30, the company would need to see an EPS of $0.48, which, at this rate, seems improbable without a significant quarter, as this is the second consecutive quarter where the company's per-share earnings are down.

This suggests to me that the stock is trading at a very high premium to its earnings and underscores the dangers of setting an IPO price too high.

Should investors buy Aritzia today?

Aritzia did have a good quarter, but overall the stock is not showing enough promise to prove to be a good investment option. The company has seen its growth slow down, as last quarter, year over year revenues were up 15%, and same-store sales are not nearly as strong as they were a year ago. Retail is a dangerous segment to invest in these days, and Aritzia is not doing enough to prove it is immune to its dangers. Without a more convincing growth strategy, it is hard to justify the stock price that Aritzia currently trades at, and with not as many openings planned this year, we may see even less growth from the company.
There is too much risk in the industry at this point, and you'd be better off investing elsewhere.

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