



Should Investors Buy This Hot Canadian Retailer on Weakness?

Description

Aritzia Inc. ([TSX:ATZ](#)) shares plunged ~6% following its fiscal Q2 2018 results, which were quite disappointing. The management team provided an underwhelming Q3 outlook, which caused many shareholders to hit the “sell” button in a hurry. With shares of ATZ down nearly ~30% from all-time highs, does it make sense to be a bottom-fisher at \$12 levels? Or will the stock continue to plunge further into the abyss?

Be careful with analyst price targets

Many analysts initially had very high, unrealistic price targets for Aritzia in its early trading days. Many analysts bought into the management team’s ambitious growth strategy, despite tough headwinds in the retail sector.

IPOs are tough to gauge, since there’s not a lot of financial data that’s publicly available, so often, many beginner investors find themselves following analyst price targets to determine whether or not they should pick up shares of a company whose management team they know very little about.

What do we really know about management?

Does the management tend to overpromise and underdeliver, as with **Freshii Inc.** ([TSX:FRII](#)), or does the management tend to underpromise and overdeliver, as with **Spin Master Corp.** ([TSX:TOY](#))? The latter results in next-level returns. The former, well ... many investors would probably lose credibility in management, and it’ll take a lot of solid subsequent quarters to regain the trust of shareholders.

Mixed Q2 2018 results with disappointing near-term guidance

For the quarter, Aritzia clocked in a net revenue of \$173.97 million, up 10.2% compared to the same period last year. Adjusted EBITDA was clocked in at \$20.7 million, up 4.5% on a year-over-year basis from \$19.81 million. Comparable-store sales growth dropped to 5.4% from 16.4% year over year, which rang some alarm bells.

The management team noted that the warmer weather this time of the year is going to negatively

impact outerwear sales. The next quarter is probably going to be a huge disappointment, but management stated that sales momentum is likely to pick up again once “seasonable weather patterns return.”

Investors have to be asking themselves whether or not all the blame should go to warmer weather. Perhaps Aritzia is starting to feel the pain from the disruption of e-commerce clothing retailers? That’s definitely some food for thought.

Bottom line

Aritzia is one of the more promising traditional retailers out there. It’s opening new store, while many of its peers are shutting their doors. However, given the recent sub-par results and guidance, I think shares of ATZ could remain lower for in the near term. Many analysts have already lowered their price targets, and I think more of the same will likely happen over the coming months.

The company has some strong brands and a creative management team, but, unfortunately, I don’t think it’ll be enough to drive the stock higher, at least in the short term.

Shares are cheap though, so if you’re keen on getting into ATZ, it may be wise to gradually build a position on further dips. But make sure you’re in it for the long term because more pain could be on the horizon.

Stay smart. Stay hungry. Stay Foolish.

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Author

joefrenette

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