Buy the Dip: Shopify Inc. or Aritzia Inc.?

Description

Shares of **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) declined 5.82% on Tuesday, October 10. This marks a 20% decline since the report from Citron Research targeted Shopify as being significantly overvalued. Citron founder Andrew Left accused Shopify of "overselling" its profit potential.

The women's fashion brand **Aritzia Inc.** (TSX:ATZ) has declined 10% since September 29. The stock has been pushed down due to insider selling and continued pessimism regarding the fashion and retail industry at large.

With a few months left in 2017, should investors be stacking stock in one of these companies as the share prices dip? Let's take a look at the case for both.

Shopify Inc.

Shopify was quick to defend its brand after taking criticism from Citron Research. In its brief retort, Shopify pointed out that the Shopify software platform had facilitated purchases from over 130 million customers in the past year. The company defended its open concept of allowing more users as its software is accessible to a broad array of aspirational entrepreneurs by design.

Shopify stock boomed after releasing its second-quarter results on August 1. It posted a 75% increase in revenues to $151.7 million. The company also beat analyst expectations, posting a net loss of $14 million. The stock has still increased 100% in 2017 as of close on October 10.

Left is the next in a long line of short sellers who have absorbed criticism for methods that can be disruptive to valuations. In 2016, he was banned for a five-year period from the Hong Kong market for "market misconduct," though Left was critical of the decision.

Aritzia Inc.

The design house and fashion retailer Aritzia released its second-quarter results on October 5. Someof its in-house brands include Wilfred Free, TNA, Talula, and others. It also carries clothing labels like Nike, Levi's, and Adidas.

Second-quarter results showed a 10% increase in net revenues to $174 million compared to Q2 2016. The company reported solid same-store sales growth of 5.4% year over year and gross profit margin was 36.3% in the quarter. Net income climbed to $5 million compared to a $67.3 million loss in the second quarter of 2016.

Aritzia boasts a middle- to high-end mark up on its items, granting it some degree of leeway in a difficult market. Middle retailers like **Sears** have experienced huge difficulties of late, but Aritzia has a relatively measured physical footprint and has put itself in a good position to benefit from the rise of e-commerce.

The company launched its e-commerce platform in November 2012. With the decline of brick-and-mortar retail due to the rise of **Amazon.com, Inc.** and other e-commerce challengers, retailers are being forced to adapt. Aritzia has positioned itself well by adopting e-commerce five years ago.

Which should you buy?

Shopify closed at $115.76 on October 10, its lowest point since August. The company boasts a user base of more than 500,000 merchants, which includes brands like BuzzFeed and **Visa Inc.** Those feeling bold might want to start stacking right now, but the company now has a target on its back, and with that will likely come volatility for the remainder of this year.

Aritzia has declined 24% since its initial public offering in October 2016. Its impressive second-quarter results combined with an attractive business model, which should be robust in this new retail environment, make it a good buy right now.

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