Why Aritzia Inc. Is Jumping Over 6%

Description

Aritzia Inc. (TSX:ATZ), one of Canada's leading designers and retailers of apparel and accessories, released its fiscal 2018 third-quarter earnings results after the market closed on Wednesday, and its stock has responded by jumping over 6% in early trading today. Let's break down the results to determine if it could continue higher from here, and if we should be long-term buyers.

The results that ignited the rally

Here's a breakdown of 12 of the most notable statistics from Aritzia's 13-week period ended November 26, 2017, compared with its 13-week period ended November 27, 2016:

Metric	Q3 2018	Q3 2017	Change
Net revenue	$204.45 million	$186.46 million	9.6%
Gross profit	$91.54 million	$82.27 million	11.3%
Gross margin	44.8%	44.1%	70 basis points
Adjusted EBITDA	$49.96 million	$45.43 million	10%
Adjusted EBITDA margin	24.4%	24.4%	Unchanged
Income from operations	$40.66 million	$28.42 million	43.1%
Operating margin	19.5%	16.0%	350 basis points
Adjusted net income	$30.60 million	$27.46 million	11.4%
Adjusted net income perdiluted share (EPS)	$0.26	$0.23	13%
Comparable-store salesgrowth	6.3%	15.1%	N.M.
New stores openedduring period	1	2	N.M.
Number of stores at endof period	84	77	N.M.

Important notes from the report

Here are four important statements or quotes that were made in the quarterly report:

1) The drivers of revenue growth:

> “The net revenue increase was primarily driven by the addition of seven new store openings and five expanded or repositioned stores since the third quarter of Fiscal 2017, as well as comparable sales growth of 6.3%, delivering our 13th consecutive quarter of positive comparable growth, resulting from continued momentum in our e-commerce business.”

2) More on the strength of e-commerce:

> “Our e-commerce business was launched in fiscal 2013 and quickly surpassed our growth expectations with continued strong performance and growth in online traffic during YTD 2018… We are in the early phases of leveraging advanced business intelligence and behaviour analytics to further enhance our understanding of our customers.”

3) Insider buying:

> “During the third quarter, Brian Hill, Founder, chairman and CEO (through a holding investment company controlled by Mr. Hill), purchased an aggregate of 290,700 subordinate voting shares, increasing his equity ownership in the company to 22.32%, consistent with his previously disclosed intention to maintain a long-term target equity ownership of between 20% to 25%.”

4) Outlook on the fourth quarter:

> "The sales momentum in the third quarter has extended into the fourth quarter as a result of a strong start to the holiday and fall/winter sale season … We have already repositioned our San Francisco store to a flagship location and expanded our Aritzia location in Edmonton's Kingsway Mall in the fourth quarter. In addition, we currently plan to open two new stores in the fourth quarter."

What should you do with the stock now?

It was a fantastic quarter overall for Aritzia, which has been an ongoing theme for the apparel company, as its net revenue increased 11.2% to $523.46 million, its comparable-store sales increased 6.7%, and its adjusted EPS increased 17.9% to $0.46 when compared with the first 39 weeks of fiscal 2017; with these very strong results in mind, I think the market has responded correctly by sending its stock higher.

I also think Aritzia's stock could continue higher from here, and head back towards its 52-week high of $17.33, because it's one of the retail industry's best growth stocks, as shown by its performance year to date in fiscal 2018, and because it trades at attractive valuations based on its growth rate, including just 21.6 times this year's estimated EPS of $0.62 and only 17.6 times fiscal 2019's estimated EPS of $0.76.

With all of the information provided above in mind, I think Foolish investors seeking exposure to the retail industry should consider Aritzia one of the market's best opportunities.

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