Aritzia Inc. Stock Is Rebounding: Time to Buy?

Description

Investors who'd bought IPO shares of **Aritzia Inc.** (TSX:ATZ) in October 2016 at $16 a pop have to be breathing a sigh of relief, as the stock continues to rebound from its $10.25 all-time low hit in early November.

With U.S. holiday retail sales pretty buoyant, Aritzia investors have eagerly anticipated the company's Q3 2018 earnings results. Fool.ca contributor Joseph Solitro went over the numbers with a fine-toothed comb, and he's given it a clean bill of health.

"It was a fantastic quarter overall for Aritzia, which has been an ongoing theme for the apparel company…" wrote Solitro January 11. "… With these very strong results in mind, I think the market has responded correctly by sending its stock higher."

The stock is more than 6% higher in January 11th trading.

Solitro thinks Aritzia is one of the best TSX buying opportunities, because it's attractively valued at 18 times 2019 earnings and growing faster than almost every Canadian retail stock.

I'm not a fan of Aritzia, but I've decided to take a closer look at its earnings to see if I can find a chink its armour or, as Solitro suggests, is this two-month surge the beginning of a leg up that will take Aritzia higher?

The numbers from my perspective

Any cursory look at retailer starts with same-store sales, because regardless of how many stores you open in a quarter or a year, only a comparison of last year's numbers to this year's numbers tells you how good a job it's doing ringing up sales.

In the third quarter ended November 26, Aritzia's same-store sales grew 6.3%, while overall revenues were up 9.6% to $204.4 million. Those are healthy gains for sure, but set against the backdrop of a Q3 2017 same-store sales increase of 15.1%, it ought to at least make you consider why there was a slowdown.

There are two possible answers: the 2017 number was out-of-this-world good or, conversely, the business isn't performing nearly as well.

Which is it?

If you use a two-year comp to assess Aritzia's growth, you should be able to get a better idea whether it's winning or losing.

Last 8 Quarters	**Same-Store Sales Growth**	**Previous 8 Quarters (on a rolling basis)**	**Same-Store Sales Growth**
Q3 2018	6.3%	Q2 2018	5.4%
Q2 2018	5.4%	Q1 2018	9.3%
Q1 2018	9.3%	Q4 2017	12.3%
Q4 2017	12.3%	Q3 2017	15.1%
Q3 2017	15.1%	Q2 2017	16.4%
Q2 2017	16.4%	Q1 2017	12.8%
Q1 2017	12.8%	Q4 2016	9.3%
Q4 2016	9.3%	Q3 2016	15.4%
Average	**10.9%**	**Average**	**12.0%**

Source: Aritzia quarterly reports

On an eight-quarter rolling basis, Aritzia's same-store sales grew an average of 10.9% in the most recent eight quarters — 110 basis points lower than the eight quarters before that.

I know what you're thinking: this doesn't compare like quarters. You probably want me to compare the latest eight to the eight before that for a total of four year's data.

Okay, let's do it, but if you're a fan of Aritzia, you aren't going to like the results.

Last 8 Quarters	Same-Store Sales Growth	Previous 8 Quarters	Same-Store Sales Growth
Q3 2018	6.3%	Q3 2017	15.1%
Q2 2018	5.4%	Q2 2017	16.4%
Q1 2018	9.3%	Q1 2017	12.8%
Q4 2017	12.3%	Q4 2016	9.3%
Q3 2017	15.1%	Q3 2016	15.4%
Q2 2017	16.4%	Q2 2016	20.8%
Q1 2017	12.8%	Q1 2016	25.8%
Q4 2016	9.3%	Q4 2015	15.2%
Average	**10.9%**	**Average**	**16.4%**

Source: Aritzia quarterly reports

There are several reasons why same-store sales might decelerate.

The economy might be weaker, but I doubt it. A second possibility could be that its product offering hasn't been nearly as strong in recent quarters. Lastly, Aritzia's backers — founder and CEO Brian Hill and Berkshire Partners — knew they were bringing the company to IPO just at the right time when same-store sales were peaking at 20% or more a quarter, making its stock look very attractive, indeed.

So, where does it go from here?

It will probably continue to deliver mid-single-digit same-store sales growth. But considering it sold shares at $16, and its same-store sales growth was north of 20%, today's business doesn't seem nearly as attractive.

You'd better hope it can continue to cut the fat from its operating expenses, while increasing its gross margins, which it's done because that's the only way it's going to deliver a stock price approaching $20.

Should you buy after this latest surge?

The company's Q3 report mentioned it's making progress on the e-commerce front, yet it makes no attempt to break out the numbers. Is it 5% of revenue? 10%? What is it? To say it's gaining momentum is an empty statement without evidence.

I'd wait to buy the dip if you must buy at all. I'm just not convinced that Aritzia is the real deal.

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