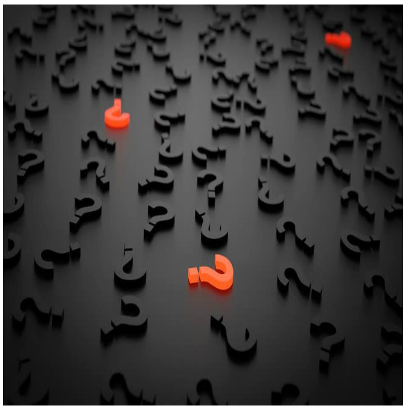

Is Aritzia Inc. (TSX:ATZ) Stock About to Hit All-Time Highs?

Description

Aritzia Inc. (TSX:ATZ) stock has been climbing steadily in the past month, boosting optimism among several analysts. BMO Capital Markets, for instance, just reiterated its "outperform" rating on Aritzia with a price target of $19, thereby representing a solid 25% upside from current price.

While Aritzia's focus on exclusive in-house brands like **Lululemon Athletica Inc.** (NASDAQ:LULU) is a competitive advantage, here are three reasons why Aritzia shares could soon hit all-time highs and not look back.

Strong same-store sales growth

Same-store sales, also known as comparable sales, is a key measure in gauging the health of a retailer, as it indicates sales from stores that have been open for at least one year. That way, any contribution to sales by newly opened stores that may magnify a company's top line is eliminated.

Aritzia reported 6% and 6.6% growth in same-store sales for Q4 and fiscal 2018, respectively. To help you understand why this metric matters, consider that Aritzia's Q4 and full-year revenues grew 11.9% and 11.4%, respectively, thanks to new and relocated stores.

Q4 was the 14th straight quarter of positive comparable sales growth for Aritzia. In the past decade, Aritzia grew its total revenue at a solid compound annual rate of 19%.

Double-digit growth goals

Aritzia plans to grow its revenue to $1.1-$1.2 billion and adjusted net income to $115-$130 million by fiscal 2021. To gain some perspective, the company generated $743.3 million in revenue and $75.9 million in adjusted net earnings in the fiscal year ended February 25, 2018.

Adjusted net income excludes non-recurring items like stock-based compensation, tax reforms, and gain or loss on foreign exchange (remember that Aritzia has extensive operations in the U.S. and every movement in the U.S. dollar impacts it).

If Aritzia delivers on its financial goals, it would've grown its revenue and adjusted net income by compound annual rates of 15-17% and 23-26%, respectively, between 2016 and 2021. That's pretty impressive growth to have in the retail industry.

E-commerce a huge tailwind

Aritzia's next growth wave could come from e-commerce. Lululemon has gone big after online sales and is reaping the benefits. Last quarter, Lululemon's direct-to-consumer sales (primarily online sales), shot up 62% year over year.

Aritzia has big plans, targeting 25% revenues from online sales by 2021. One of its approaches will be to enhance its international websites, particularly China.

China's e-commerce is booming. Lululemon, for instance, reported a staggering 50% surge in sales from the Asia-Pacific region last quarter, with China emerging as the strongest market.

Does current valuation make Aritzia a buy?

Retail is a tough business, more so for fashion apparel, the demand for which is subject to the whims of consumers' ever-changing changing tastes and needs.

Yet Aritzia is growing at a reasonable clip as its exclusive brands, including TNA, Babatone, and Wilfred, expand their reach. The closure of Sears Canada stores should further open up opportunities for Aritzia.

For aggressive investors, Aritzia looks attractive even at a price-to-earnings of 31 times, as it's not only significantly lower than the industry average P/E, but its forward P/E of 20 times earnings also indicates strong potential upside in the company's earnings going forward.

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