



Can Aritzia Inc. (TSX:ATZ) Stock Grow as Fast as its Fundamentals Suggest?

Description

When looking at companies through the lens of a long-term fundamentals-oriented investors, buying shares in growth companies often are eschewed in favour of mature companies with durable competitive advantages in industries that are less competitive or have higher barriers to entry than those of the fashion retail industry.

For Canadian retailer **Aritzia** ([TSX:ATZ](#)), growth has become the name of the game for investors looking for relative “value” in a sea of overpriced growth stocks. Aritzia’s stock price has appreciated more than 60% from its 52-week low at the time of writing due in large part to its relatively strong growth fundamentals within the fashion retail space.

Aritzia’s business model is one that has been built on strong operations in key cities primarily in North America. The company’s core 10-15 brands account for approximately 90% of the firm’s overall revenue, tethering this company to the success of its core brands to continue to remain relevant with a young demographic. The company has been able to grow earnings at around a 20% clip in recent years, making the firm’s valuation appear less daunting than at first glance for investors who are interested in riding this wave for the long haul.

Currently, Aritzia’s price at around 21 times its forward price-to-earnings ratio, meaning the company is certainly by no means a cheap option, but it’s one that many growth investors may consider in this environment, given the valuation multiples many growth firms in other sectors such as technology or cannabis are justifying at this point in time.

Shares of Aritzia have largely gone sideways since the company’s [initial public offering](#) (IPO), making this firm one of the more frustrating IPOs for Canadian investors in recent history, given success stories, such as **Canada Goose Holdings** and **Shopify**, which have dominated the portfolios of investors who got in early on these two firms.

Bottom line

The fashion retail space is one which I have [stated my stance](#) on in the past; while Aritzia’s brands are proprietary, and the company does a good job of achieving strong operating margins and a foundation

for continued growth via store expansion, long-term threats to the fashion retail space are too abundant for cautious long-term investors such as myself to buy into a name like Aritzia.

The company's dual-class share structure is a no-go for me, given the range of headwinds I expect Aritzia to have to fend off long term, including the decline of conventional brick-and-mortar retail.

For those interested in the risk/reward profile of Aritzia and need to add a growth name, there are certainly worse companies out there. My issue is, there are also better ones.

Stay Foolish, my friends.

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