Aritzia Inc.'s (TSX:ATZ) Profit Triples in Q2: Is the Stock a Buy?

Description

Aritzia (TSX:ATZ) posted its 2019 second-quarter results last Thursday, which topped estimates and showed a strong increase in net income. The market reacted very positively to the news, pushing the stock over 10% at the markets opening on Friday.

The retailer's net income triples

Aritzia's net income tripled to $15.1 million in the second quarter as compared to a year ago, boosted by U.S. sales.

Adjusted earnings increased by 76% to $18.3 million, or $0.16 per diluted share, in the quarter ended August 26, beating expectations by $0.04.

Aritzia benefited from improved product costs, the weakening of the U.S. dollar compared with last year, and a sales shift towards exclusive brands. Increased warehousing and distribution costs weighed on results. The company continues to face increasing raw material costs, particularly wool, down, and polyester, but it is not planning to increase its prices yet.

Revenue rose 18% from a year ago to $205.4 million in the second quarter, driven by growth in sales both in stores and online. The fashion retailer saw a 40% revenue growth in its U.S. business, as the company opened two new stores in the quarter in San Diego and Washington, D.C., as well as a pop-up shop in San Jose, California. This is a strong improvement from the 20.5% growth in U.S. sales that Aritzia saw in the first quarter.

"We think we're just at the tip of the iceberg as far as our recognition in the United States; that said, it's growing very healthy and we're super excited about our business," said company CEO Brian Hill during an analyst call.

The company will be focusing on opening new stores in the U.S. in the future, so positive sales trends and rising brand awareness are expected to persist. Aritzia also opened a new store in Waterloo, Ontario, during the quarter and now counts 90 stores in North America.

Comparable sales rose 11.5% in the second quarter as compared to a year earlier. This quarter marks the 16th consecutive quarter of positive comparable sales growth.

For fiscal 2019, the company expects to deliver revenue growth around 15% and profit growth near 20%.

“As we move through the second half of the year, we remain focused on advancing our key growth initiatives including strategic investments in our eCommerce business, expansion of our premier store network, and strengthening our infrastructure, while continuing to deliver beautiful high quality product that resonates with our consumers,” said Mr. Hill.

Is Aritzia stock a buy?

Aritzia is clearly standing out in the retail sector and is positioning itself to be a major player. The fashion retailer has strategies that should drive long-term growth, such as product creation and innovation, investments in e-commerce and store expansion, as well as focus on consumer experience.

Aritzia is staying ahead of the competition by adapting to consumers’ needs and preferences.

In addition, while the stock has soared 45% since the beginning of the year, it is still attractively valued, trading at a P/E ratio of 34.7 versus 64.5 for the industry. Its forward P/E is only 20.4, which is low for a growth stock.

In my point of view, Aritzia is a strong buy and one of the best growth and retail stocks to buy at the moment.

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