Is Aritzia Inc. (TSX:ATZ) Canada's Best Retail Stock?

Description

Aritzia (TSX:ATZ) delivered strong Q2 results October 4 which included tripling its net income while also increasing revenue by 18%.

Since then, its stock has been on a bit of tear, up 10%, while the rest of the market's been in correction mode, prompting me to wonder if it's become Canada's best retail stock in 2018.

Don't forget Canada Goose

You can't determine Canada's best retail stock without taking **Canada Goose** (TSX:GOOS)(NYSE:GOOS) into consideration. After all, it's up 59% in 2018, 18 percentage points clear of Aritzia.

However, with Aritzia up 9% in the past week compared to a 17% decline for Canada Goose, you have to wonder if they are two stocks heading in opposite directions.

It's been a while since I took a closer look at Canada Goose, so I've looked to my Fool colleagues to get a sense of how its business is doing.

More importantly, I want to know if the 17% drop in its stock price is shareholders taking profits or a concern that it's not going to hit its growth targets for the second quarter. It announces those earnings in early November.

"In four years, management has been able to grow its international business from zero to over $250 million, and the international business has made up over 40% of the company's sales so far in 2018," stated Fool contributor Jason Phillips September 21. "Most of that international growth is being led through its e-commerce or direct-to-consumer channels."

The thing I like about Canada Goose is that it's done a fantastic job balancing between wholesale, brick-and-mortar, and online sales. It's a triple threat, something most Canadian retailers fail to achieve.

Another attractive aspect of Canada Goose is its margins.

“What makes the company an appealing buy for the long term is its focus on quality and producing handcrafted apparel that can generate strong margins, especially as Canada Goose sells more to its direct-to-consumer segment where it saw strong growth last quarter, as that can help the company avoid costs related to using an intermediary,” David Jagielski said recently.

Canada Goose’s gross margins in the trailing 12 months were 59.7%, 17 percentage points higher than Aritzia and 540 basis points higher than **Lululemon**, arguably Canada’s most successful global retail brand.

If you own GOOS, I’d watch the margins like a hawk, because that’s a significant driver of luxury brand stock prices.

Aritzia’s day in the sun

While Aritzia can’t match Canada Goose on the margin front, it’s doing a pretty good job when it comes to same-store sales growth.

In the second quarter ended August 26, 2018, Aritzia grew same-store sales by 11.5%, its 16th consecutive quarter of higher comps. More importantly, its same-store sales in Q2 2019 were more than double what they were a year earlier. Until I became an Aritzia convert in July, I had been concerned that these were decelerating.

“It’s this relationship [Meghan Markle wears Aritzia] that helped its same-store sales grow 10.9% in the first quarter ended May 28 — 160 basis points higher than in the same quarter a year earlier,” I wrote in late July. “Aritzia’s same-store sales had been slowing in recent quarters, so this uptick is a very good sign.”

Very good indeed.

Add to this the fact that Aritzia grew its U.S. revenue by 40% in the second quarter and now accounts for 31% of its overall sales, up from 28% a year earlier. If it wants to become a player in the North American market, that number has got to get into the 60-70% range. Anything less should be considered a failure.

The best retail stock in Canada

Although Aritzia has made significant strides over the past year and is undoubtedly the stock with momentum heading into the holiday season, I would have to say that although I like both stocks, if you can only own one Canadian retail stock, Canada Goose remains the better of the two.

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