Are Retail Stocks Worth the Risk Today?

Description

While I am still relatively cautious on the consumer, certain retailers continue to go full-steam ahead with their expansion plans — and continue to see impressive results, such as the two retailers I will discuss in this article.

While they are up from their IPO prices a couple of years ago, the ride has been highly volatile and certainly not for every investor.

But what does that future have in store for them?

Artizia Inc. (TSX:ATZ) stock has recovered quite nicely from 2018 lows of approximately $10, and it is now approximately 13% higher than its 2016 IPO price of $16.00, as the stock continues its volatile ride.

Since 2015, revenue and earnings per share have more than doubled, and return on equity remains strong, at over 20%.

The balance sheet is strong (17% debt to total market capitalization), and with the company's expansion remaining in full force, we can expect more strong growth going forward.

But the risks remain.

Such as the fact that Aritzia is in a space of the retail market that's pretty vulnerable to fashion trends and fads. As well, Aritzia's apparel is in the luxury category so would be vulnerable amid an environment where the consumer is weakening.

So while Aritzia has outperformed on many metrics, I think that earnings estimates for discretionary stocks, especially luxury retailers, remain at risk given the risks to the economy and economic growth and debt levels.

Results continue to look solid, but apparel retailers are notoriously risky and vulnerable to shifts in the latest fads and competition, and trading at a 22 times P/E multiple, with headwinds such as slowing consumer spending, this stock is not one I would buy right now.

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS)

Canada Goose IPO'd at a price of $12.78 in what was a highly successful IPO that has seen the stock skyrocket to highs of more than $90 in November 2018.

Currently the stock is trading at approximately $65, or 400% higher than its IPO price at writing in what has been a highly volatile ride that has left early investors very happy.

Regarding the future for Canada Goose, two things are important to remember here.

The first is that the stock is trading at sky-high valuations of 50 times this year's expected earnings and 39 times next year's expected earnings. A lot of growth is being priced into this stock.

The second is that the company has exposure to China, which can be a highly uncertain market with tensions escalating rapidly. This poses a risk to Canada Goose. The stock is down 30% from its highs, probably partly because of this risk.

Going forward, Canada Goose as a company is doing many things right, but the macro environment I believe warrants being more defensive, as the consumer and the economy do remain at risk, in my view.

In closing, I would pass on both of these stocks, and this reflects my view on the macro environment in general.

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