Why Aritzia's (TSX:ATZ) Shares Are Up 16% This Week

Description

It's been a volatile ride for retailers. From trade wars to geopolitical issues, retail has been caught in the middle of several high-profile macro events. It is therefore not surprising to see that the sector has been highly volatile.

The **TSX Consumer Discretionary Index**, which tracks several retail companies, is up approximately 5.6% over the past year. This is in line with the performance of the broader **TSX Composite index** (5.7%).

Within the industry, some stocks have been more volatile than most. One such example is **Aritzia** (TSX:ATZ).

Over the past year, this Canadian fashion retailer has lost approximately 6% of its value. However, the swings have been significant. Twice this year, the company suffered single-day, double-digit losses. Both times, the losses were directly associated with quarterly results.

This past week, Aritzia announced second quarter results that impressed. The result? A 16% jump to the upside. It was welcome news for the company, as it had been trending downward for the better part of the past month and was trading near yearly lows.

Second quarter 2020 earnings of $0.18 per share beat estimates by five cents, while revenue of $241.9 million beat by $11.4 million. This represented growth of 18.6% and 17.4% over the second quarter of 2019.

Comparable same-store sales, a key industry performance metric, increased by 8.4% over last year, marking the 20th consecutive quarter in which the company posted positive comparable sales.

Aritzia is quickly becoming a must-have fashion icon. High-profile celebrities such as Kendell Jenner and the Duchess of Sussex, Meghan Markle, have been flocking to its products.

As per Chief Executive Brian Hill, it is a key factor in the company's growth prospects. "Augmented by increased levels of interest from highly relevant celebrities, we expect our continued product innovation and marketing initiatives will drive strong brand engagement."

After a strong second quarter, TD Securities analyst Brian Morrison raise his outlook from a "hold" to a "buy," citing a "material long-term growth opportunity."

Why is this important?

With this new rating, all analysts are now unanimous in their coverage on the company: Aritzia is a "buy." They have a one-year average price target of $22.75 per share, which implies 22% upside from today's price of $18.73 per share.

The company's performance can't be understated. It's expanding its geographic footprint through its unique boutique shops and online sales have been ramping up. It expects to meet or exceed fiscal 2021 targets, when analysts are currently expecting 23% earnings growth and for revenue to jump by 14.4%.

Foolish takeaway

If you have a high tolerance for volatility, Aritzia is a bargain. The company is trading well below its average price target and it still has a ways to reach its 52-week high of $19.79 per share.

Given its anticipated growth rates, Aritzia trading at a reasonable 17 times forward earnings, below the industry average of 21 times next year's earnings.

Will the company achieve its expected targets? If history is any indication, I wouldn't bet against it. Over the past six quarters, the company has beat to the upside by a double-digit average. Since it went public a few years ago, it missed estimates only twice.

Aritzia is establishing itself as a must-own fashion brand and is also becoming a must-own stock.

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