Why Aritzia (TSX:ATZ) Stock Is up 21.46% in the Last Month

Description

The retail industry has been under pressure from investors over the last few years, especially in Canada, and especially as e-commerce's popularity continues to grow.

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The pressure has been exacerbated for those companies that are expected to be growth companies and put up solid numbers consistently from quarter to quarter.

Though many stocks such as **Roots** and **Canada Goose** have had issues in some form or another, one company that has been a model for growth in retail stocks is **Aritzia** (TSX:ATZ).

Since it posted its fiscal 2020 second-quarter earnings on October 15, the stock is up more than 20% due to the impressive numbers it has posted and the future targets and expectations it has, which look promising.

One of the main ways it has grown is by opening new stores, especially in the United States, where less than 30% of its stores are located. These new stores have been added at an impressive rate, with an 11% compounded annual growth rate (CAGR) of the store count since 2008.

Though this isn't extremely fast, it has been manageable and is one of the reasons why Aritzia has never had to close down a single one of its boutiques. The growth in stores has driven much of the company's total overall growth, with revenue having a CAGR of 17% since 2008.

Going forward, it has a plan to open five to six stores a year as well as expand or re-position another five annually. Each store requires between $2 million and $2.5 million of capex to complete, and Aritzia estimates it can make this money back in just 24 months.

It also recognized the importance of having a strong e-commerce business and is on track to have 25% of its revenue come from online by 2021.

What may be even more impressive than its growth in revenue and store count is its growth in profitability through stronger margins.

In fiscal 2016, its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin was 15.7%, and by the end of fiscal 2019 it has increased that to 18.4%.

On a absolute basis, its adjusted EBITDA has increased at a CAGR of 24% from $85 million in fiscal 2016 to $161 million in fiscal 2019.

Its unique business model is one of the main reasons why it has done so well since it was founded. The company is vertically integrated, owning some of the most popular fashion brands in Canada, and its stores offer customers a unique experience you can't get anywhere else.

While financials usually aren't as important for investors when analyzing growth companies, Aritzia's finances are rock solid. Its total debt is just $75 million, giving it a total debt to the last 12-month EBITDA ratio of just 0.6 times.

Aritzia will continue to leverage its high-quality designs, unique in-store experiences, as well as its influencer network, which also consists of A-list celebrities such as Meghan Markle, who are frequently photographed and seen wearing any number of Aritzia's top brands.

The company has a number of growth targets it plans on hitting by 2021. Its target for revenue, boutique count, and boutique redevelopment are all on track to be reached; meanwhile, its goal for adjusted EBITDA and adjusted net income is ahead of plan.

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The future looks nothing but bright for Aritzia, and investors have noticed, bidding the stock up to all-time highs after the company reported these earnings and outlook just under a month ago.

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danieldacosta

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