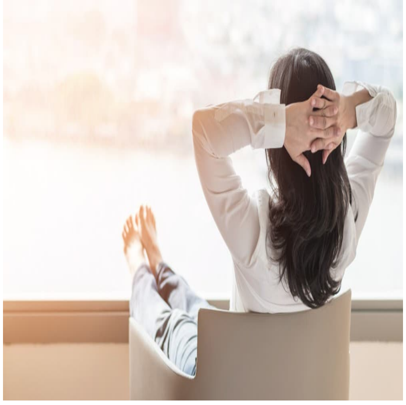

Canadians: This 1 Stock Is the Ultimate Contrarian Play in 2020

Description

Aritzia (TSX:ATZ) is a vertically integrated design house that own multiple brands. The company focuses on women's apparel and accessories that address a range of style and lifestyle preferences.

The company has a market capitalization of $2.06 billion with a 52-week high of $19.59 and a 52-week low of $15.08.

An interpretation of the numbers

For the six months ended September 1, 2019, the company reports a strong balance sheet with $408,000 in retained earnings, down from $109 million the previous year.

The reduction in retained earnings is not due a net loss, but rather the introduction of IFRS 16, which resulted in a $42 million reclassification into right-of-use assets.

IFRS 16 also resulted in the addition of $442 million in lease liabilities. Overall, the company reports $975 million of assets on $710 million of liabilities.

Aritzia reports a significant growth in revenues from $372 million in 2018 to $438 million in 2019 (+17.6%), with only a marginal increase in cost of goods sold (+12.6%).

This means that the company is selling higher margin goods, which could be the result of reduced production costs, increased purchases of new items or a combination of both. After-tax net income of $34 million in 2019.

The company reports traditional cash flows (TCF) of $80 million, which is sufficient to cover the current portion of debt and lease obligations of $77 million. The company also purchased and cancelled $107 million of outstanding shares during this period.

But wait, there's more…

Looking at the company's notes to its financials indicate a couple of important items.

First, the company has credit facilities totalling $100 million, which includes a $10 million carve-out for a swing line loan (short-term higher interest loan).

As of September 1, 2019, $20 million was drawn on the revolver. Given outstanding letters of credit totalling $75 million the company has $30.6 million available on the facilities, representing a utilization rate of 40%.

Investors should be satisfied with this low utilization rate, as it allows the company to draw on its revolvers to fuel future growth.

Second, one of the company's largest shareholders sold its position in Aritzia. Berkshire Partners LLC is a Boston private equity firm that received $107 million in exchange for forfeiting all 6,333,653 shares in Aritzia.

This not a concern to me, as private equity firms have a target entrance and exit price that has no bearing on the ability of Aritzia's share price to continue to grow. Thus, the exit of Berkshire Partners LLC does not change my bullish position.

Third, the company announced the commencement of a normal course issuer bid (NCIB) in July, 2019 which allows it to repurchase and cancel up to 3,624,915 of its subordinate voting shares (5% of the public float).

Despite the company not exercising its right under the NCIB, it did repurchase and cancel $107 million worth of shares from Berkshire Partners LLC.

Foolish takeaway

Investors looking to diversify their portfolio and purchase shares of a company for the long-term should consider buying shares of Aritzia.

The company reports solid financial statements coupled with revenues that are increasing year over year. This is especially impressive given the current state of the retail industry.

Further, the company has a 60% unused revolving credit facility, giving it ample room to draw on it to fuel future growth.

Given the introduction of the NCIB and recent cancellation of $107 million of shares purchase from Berkshire Partners LLC, senior management is sending a strong message that its share price is undervalued.

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1. Investing

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1. Investing

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