Could Aritzia (TSX:ATZ) Be a Millionaire-Maker Stock?

Description

Back when **Aritzia** (TSX:ATZ) had its IPO back in 2016, I urged investors to avoid the stock like the plague, citing overvaluation, overly optimistic growth prospects, and the volatility (as well as fickleness) of the business of fast fashion.

Forever 21 is a fast-fashion retailer that went belly up and is a significant reason why I was hesitant to recommend Aritzia in its earlier years.

Fast-forward to 2018, I changed my tune with Aritzia, highlighting clever use of social media influencers and celebrities to build upon Aritzia's brand equity, which would give it a boost as it looked to expand into the U.S. market.

Sure, there were still many things that could have gone wrong with fast fashion, like the pile-up of inventory and the erosion of margins in the event of excessive discounting. Still, I thought Aritzia's marketing strategy and stellar in-store experience separated itself from the likes of a poorly-run retailer like Forever 21.

Did Meghan Markle put the sparkle back in Aritzia stock? Fellow Fool Will Ashworth certainly thought so .

"Joey Frenette made an astute observation recently about Markle's popularity, the brand, and its expansion into the U.S., suggesting that the American's fondness for British royalty, especially now that one of their own is part of the family, will provide immense help as it moves into the American market," wrote Ashworth.

"As long as Markle keeps buying Aritzia clothing, the promotional value of her association is priceless."

With Markle now a member of the Canadian family after the widely publicized retreat from royal duties, Aritzia stands to profit profoundly as Markle continues dawning articles of clothing from the Vancouver-based upscale fashion retailer.

Add promos by influencers like Kendall Jenner into the equation and you've got the formula for big-time sales growth alongside even fatter margins, potentially fatter than Aritzia's trendy Super Puff jackets.

For Q3 fiscal 2020, Aritzia delivered an excellent beat, with adjusted EPS numbers of $0.32, beating analyst expectations by a penny. Same-store sales (SSS) grew 5.1% for the quarter thanks in part to strong growth in e-commerce, while net revenue jumped 10% year over year.

It's apparent that consumers have a rapidly growing affinity for the brand, thanks to the strengthening of brand equity over the past few years. With significant strength exhibited in the U.S. market, Aritzia will be one of Canada's best retail stocks to own over the next five years.

While gross margins were a tad sluggish for the quarter, falling 50 basis points due to the weakening of the loonie, over the long run, margins should expand as the brand looks to evolve into a luxury brand. I certainly wouldn't rule it out given that Aritzia clothes have been worn by royalty!

Moreover, as the retailer continues investing in the customer experience, with its upscale brick-and-mortar locations and improving e-commerce platform, I see the potential for further SSS as Aritzia looks to widen its footprint in the U.S.

Foolish takeaway

Could Aritzia be a millionaire-maker stock? I wouldn't rule it out, especially if you think Aritzia can continue the magnitude of success it's had over the past year.

As a discretionary, Aritzia is more vulnerable to an economic downturn, but I'd say the rewards are well worth the risks.

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