Could This Major Retailer Be in Danger of Going Bankrupt?

Description

The year 2020 will see many bankruptcies that businesses will blame on COVID-19 this year. When customers aren't able to visit stores and businesses continue to have to pay rent and overhead, it doesn't take a mathematician to figure out that the writing's on the wall for many companies.

It also doesn't help that for retailers, it may not be easy to get people to work for minimum wage when they can sit at home and collect payments from the Canada Emergency Response Benefit instead.

It makes for a perfect storm that has the potential to wipe out many companies this year. J. Crew, Neiman Marcus, and J.C. Penny are just some of the big names that have already filed for bankruptcy this year. Many more will follow.

Will this be the next one to go under?

A Canadian retailer that could be in danger this year is **Aritzia** (TSX:ATZ). The popular clothing company said in May that it's projecting first-quarter sales to be down 45% due to COVID-19. The company's coming a fourth quarter that saw net sales ise by 6.3% and comparable sales increased by 8.9%.

But that was up until the period ending March 1, just before lockdowns took place and the COVID-19 pandemic sent people into full panic mode.

Aritzia shut down its stores in Canada in the U.S. mid-March, but says that e-commerce sales have helped salvage the disastrous quarter for the company. CEO Brian Hill said that "Even though our overall business was down significantly as a result of our boutique closures, our e-commerce revenue growth has been in excess of 150 per cent compared to last year."

Aritzia has already started reopening some of its stores in early May as cities in North America have loosened restrictions in recent weeks.

But there are a couple of problems that Aritzia investors should be concerned about — the first is that the company's margins aren't all that strong, which could hinder the company's ability to stay out of the red.

In six of its past nine quarterly results, Aritzia's profit margins were below 8%. That's not a terribly strong margin, as it doesn't leave a lot of room for the company to breakeven during difficult times.

Its upcoming first-quarter results will likely be deep in the red, with lots of cash burn to go along with them. And although the retailer has opened up some stores, it expects to have less than one-third of them back up and running by the end of Q1. That makes it likely that Q2 will be another red quarter for the company.

Another looming threat is that with protests going on in the U.S. and cities perhaps opening up a bit too early, there's a danger that there could be a rise in COVID-19 cases. If that happens, cities may be back on lockdown.

Bottom line

Aritzia's safe in the short term, as cash isn't a problem for the company just yet. But things aren't likely to stay that way. The stock isn't one that I'd expect to survive the pandemic, especially as consumers are out of jobs and looking for ways to save money.

This is a high-risk stock that investors should think long and hard about, especially when there are so many better buys out there.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/23
Date Created
2020/06/10
Author
djagielski