Don’t Miss Buying This Tiny TSX Stock in July ONLY for the Long Term

Description

Aritzia (TSX:ATZ) announced its first-quarter results on Thursday for fiscal 2021. In the quarter ended May 31, the Canadian women’s fashion company saw major sales declines due to the COVID-19-related closures across the U.S. and Canada. While the company had to close all its stores on March 16, its sales slumped sharply, even in the first two weeks of March.

default watermark

Nonetheless, not everything about Aritzia’s first-quarter earnings was negative. Let’s take a deeper dive into its latest financials and find out why you may want to include this tiny TSX stock in your portfolio for the long-term.

COVID-19 headwinds

In Q1 2021, Aritzia reported an adjusted net loss of $24.9 million, or $0.23 per share, against its adjusted net earnings of $18.5 million, or $0.17 per share, in Q1 2020. However, it was still much better as compared to Bay Street analysts’ estimate of $29.7 million net loss for the May 2020 quarter.

Due to the pandemic-related closures, the company’s total sales tanked by 43.4% YoY (year over year) to $111.4 million in the first quarter. But Aritzia managed to beat analysts’ sales estimate of $108.5 million. Another positive factor was that the company’s e-commerce sales grew by over 150% YoY since mid-March. Aritzia.com — its online sales portal — witnessed a significant rise in traffic as well as in conversion rate.

Aritzia’s gross profit margin heavily suffered due to the pandemic, as it shrunk to just 11.7% in the last quarter as compared to 43.5% a year ago. In the previous quarter, its gross profit margin was 41.1%.

What to expect in the future

Interestingly, Aritzia has not laid off or cut salaries of any of its retail employees so far due to the COVID-19. Instead, the company stopped paying rent for most of its closed stores since April to minimize costs. Also, it’s trying to leverage COVID-19-related government business support programs to help it swim through tough times. As of May 31, 2020, Aritzia had a cash pile of $224.3 million — significantly higher as compared to $117.8 million at the end of the previous quarter.

Aritzia has already opened 89 out of its 96 total stores. The initial sales at these reopened boutiques have been much better than its expectations. At these stores, the company has implemented health and safety measures for employees and clients that will cost it around $4 million per quarter.

While Aritzia's management has not given a clear second-quarter or full-year guidance, it expects the boutique sales performance to improve sequentially.

Foolish takeaway

Most factors that we have discussed so far in this article don't reflect any major signs of an immediate recovery in Aritzia's business. However, most of the negative factors seem already factored in its stock price.

As I noted in my recent article before its earnings, Aritzia's increased focus on e-commerce could help it better prepare for difficult times. Also, It can potentially boost its overall sales — when all of its 96 boutiques are reopened. Considering multiple near-term uncertainties, I would recommend buying Aritzia's stock at current levels — only for the long term.

default watermark

Its stock currently trades at $19.96, with 4.8% gains in 2020 so far against 8.8% losses in the **S&P/TSX Composite Index**.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Investing

Date
2025/08/27
Date Created

2020/07/10

Author

jparashar

default watermark

default watermark