Buy Alert: 1 Top Stock to Buy in July!

Description

Although the **S&P/TSX Composite Index** is up almost 35% since March, there are still bargain stocks to be found if you are willing to be contrarian and patient. By patient, you likely need a five-year investment time frame. The reality is, the TSX is likely to continue to see some serious volatility during this pandemic era. Yet you can buy some top stocks at once-in-a-lifetime bargains!

One stock that is on my contrarian radar is **Aritzia** (TSX:ATZ). It is a leading Canadian women's fashion boutique with a focus on "everyday luxury." It has 96 stores in Canada and the U.S. and markets its brands internationally through a strong online presence.

Aritzia posted a tough Q1 loss due to the pandemic

Last Thursday, Aritzia reported its first-quarter 2021 results ending on May 31, 2020. Not unexpectedly, the company faced an extremely challenging quarter. Due to the pandemic, all 96 of its locations were temporarily closed from March 16 until May 7.

As a consequence, net revenue decreased by 43.4% to $111.4 million, adjusted EBITDA fell 174% to $(25.2) million, and it saw an adjusted net loss per share of $(0.23). This was 235% lower than the year prior.

There is light to be found for this top stock

Clearly, this was a difficult quarter for the company and for the stock. Yet I believe there is some light to be found. Firstly, it beat average analyst estimates for revenues and net loss per share of $108 million and $(0.25) per share, respectively.

Secondly, strong e-commerce sales likely contributed to the lower-than-expected loss. In fact, e-commerce revenues increased by 150% over the quarter.

Thirdly, the company showed strong leadership in a difficult time. It did not lay off any of its staff.

Rather, it redirected staff to various e-commerce and distribution channels. Consequently, it has been able to revamp operations relatively quickly. Right now, 89 of 96 stores have reopened. As of July 9, business productivity had returned to 55-65% of last year's levels.

This cheap stock will survive and thrive again

Frankly, Aritzia held its own in the quarter. It will probably take the rest of the year to fully recover. Yet, I think it is one of the best-equipped retail stocks to survive and thrive after the pandemic. Here are a few reasons why.

Unlike many retailers, this stock has a strong balance sheet supporting it. Right now, it has $224 million of cash (including a $100 million drawn credit facility) and only $74 million of long-term debt. It can handle its decline in revenues, pay staff, vendors, and landlords, and still keep investing in growth.

In fact, it has been using the pandemic to opportunistically lease up new, prime locations at "compelling post-COVID financial terms." This year, it still plans to spend $30-$35 million to open five or six new boutiques, two pop-up locations, and reposition three other stores.

Also, its foresighted investment into e-commerce has paid off, and investments in this vertical should continue to produce returns. E-commerce remains Aritzia's fastest-growing sales channel. It already has a strong distribution network, and I think continued e-commerce growth will enhance revenues and margin expansion for many years.

Aritzia is a top-quality retail stock

All around, Aritzia has great brands and a very well managed business. Besides this year, it has been able to grow net revenue, adjusted EBITDA, and adjusted net income by a four-year CAGR of 16%, 19.4%, and 24.8%, respectively! That's a great track record!

Aritzia stock may trade in a range until it can demonstrate profitability again. However, I would take today as a great time to own a diversified, multi-channel retail stock that has a great opportunity for growth for many years to come.

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