Next Lululemon? Why Aritzia Could Be Canada's Next Great Retailer

Description

Don't look now, but **Aritzia** (TSX:ATZ) stock is off to the races, blasting off over 90% in this past year alone. In numerous prior pieces, I'd praised shares of the Vancouver-based women's clothing retailer as one of my top picks. The Canadian company has essentially perfected the omnichannel experience, and it may very well continue roaring higher, as the economy reopens and more people head back to the shopping mall.

As good as Aritzia's e-commerce platform is, I must say that its physical stores are something special. They draw upon the experiential factor, which is why the retailer has been such a hit among the millennial cohort. Clearly, management has invested a considerable amount in its brick-and-mortar locations. Not to take away from Aritzia's incredible online presence, but in the post-pandemic environment, I think brick-and-mortar locations are well positioned to do some real heavy lifting.

Aritzia as the next Lululemon? Believe it

Fellow Fool contributor Chris MacDonald isn't just a fan of Aritzia. He went as far as to call Aritzia one of the best brands in Canada: "There are many reasons why retail investors are choosing retailers like Aritzia as pandemic reopening plays. Indeed, Aritzia remains one of the best brands in Canada. And the company's expansion in a big way into U.S. retail (physical and e-commerce) provides impressive growth potential."

As always, I think he's right on the money.

Aritzia may very well evolve to become the next **Lululemon Athletica** (NASDAQ:LULU). While the differences between the two Vancouver-based retailers may outweigh the similarities, I think there's no denying that, in many ways, the Aritzia growth story rhymes with that of an early-stage Lululemon.

Of course, high fashion can be a tougher business than higher-margin athleisure. But I think it's foolish (that's a lower-case *f*) to underestimate Aritzia's international growth plan, given its U.S. expedition had already demonstrated signs of profound success before the insidious coronavirus stalled the incredible retailer's growth plans.

In what could be a hit to Lululemon and most other female athletic-wear companies, Aritzia's acquisition of Reigning Champ in a deal worth $63 million, I believe, should not go unnoticed.

Not only does the deal give Aritzia a means to expand upon its moat into athletics space, but it also could give the company a means to expand into a new growth frontier: menswear.

Lululemon made a big splash in menswear in the past, and it's paid some real dividends. I believe Aritzia could replicate such success, as management looks to put their foot to the gas in the post-COVID environment.

What about valuation?

At the time of writing, Aritzia stock trades at 4.8 times sales and 11.1 times book value. It's not cheap. But when you consider the room for margin expansion and the incredible long-term sales growth prospects in the Roaring '20s, only then does it become apparent that Aritzia stock is actually a bargain.

The retailer has done a lot of things right. Its move into menswear and continued expansion south of the border, I believe, will pay off big time. While I'd prefer to grab shares on a pullback, I think you have to get some skin in the game here today, even after the remarkable run.

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