



Could This Retail Stock Become a Tech Stock?

Description

The line between retail and technology has been blurring for years. Nearly everything you can buy in a store is now also available online on the store's website. This is especially true for multinational brands.

However, the transition isn't complete. Most e-commerce platforms lack physical locations while the online shopping experience of legacy retail brands lags behind. Brands that successfully invest in both could plug this gap and achieve tremendous growth.

That's precisely what accessory retailer **Aritzia** ([TSX:ATZ](#)) seems to be doing. The company is simultaneously investing in new storefronts, better logistics and a more refined e-commerce experience to deliver an omnichannel retail solution. These efforts are now being reflected in Aritzia's underlying growth and stock price.

Here's why this retail stock is closing the gap with tech giants within its niche.

Post-pandemic growth

Aritzia has certainly benefited a great deal in the aftermath of the pandemic. The stock has more than doubled in value year to date and is up by more than 300% since March of last year.

The company has continued to attract investors' interest in navigating swiftly the unprecedented disruptions triggered by the pandemic. Its impressive run stems from the fact that it has successfully won over both online and main street shoppers.

Aritzia operates close to 104 boutiques across North America. It has also been strengthening its e-commerce channels in recent years. This year alone, its e-commerce revenue has grown by a respectable 88% and now accounts for 50% of total revenue. In other words, Aritzia is the perfect example of an omnichannel retail success story.

Revenue growth

Increased focus on e-commerce is expected to push Aritzia to new heights and generate significant shareholder value. Meanwhile, the company is experiencing a strong rebound as the pandemic recedes. While net income dropped from \$71.36 million to \$19.22 million last year, it has more than doubled in recent quarters.

Net income in the second quarter of fiscal 2022 was up 4,093% over the same quarter last year. Free cash flow, meanwhile, jumped 605% over the same period. The company has generated \$135 million in free cash flow over the past 12 months, but that figure could jump much higher by the end of this Christmas shopping season.

That upcoming growth isn't reflected in Aritzia's stock price yet. The stock trades at a [price-to-earnings](#) multiple of 56. It's also trading at a price-to-FCF ratio of 32.6. These ratios are far lower than what you would expect for a company expanding revenue at 88% annually.

Bottom line

Tech and e-commerce stocks command a premium valuation. But what happens if a legacy retail stock earns roughly half its income from online sales? That's what's happening at Aritzia. The business has rebounded sharply over the past year. Now, the team is investing in both physical stores and its online shopping platform. That should help it achieve double-digit growth for the near term.

Meanwhile, the stock is undervalued. This could be the best time to add some exposure to this underrated growth stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Investing

Date

2025/08/27

Date Created

2021/12/05

Author

vraisinghani

default watermark

default watermark