This Cheap Stock Is Growing at 113%

Description

Growth stocks are rarely cheap. Investors usually get too excited about growth opportunities and push valuations up to the stratosphere. This is why a “cheap” growth stock isn’t common.

However, the recent dip in consumer and tech stocks has compressed valuations for some top-notch companies. Here’s a look at an underpriced growth opportunity that has recently surfaced.

Luxury retail

Affordable luxury retail brands tend to slip under the radar of most investors. That’s because the industry is notoriously competitive and cyclical. However, brands like **Lululemon** have managed to beat the odds and create sustainable value for shareholders.

Lululemon stock is up 500% since 2017. That’s a compounded annual growth rate of 43%. Who knew yoga pants could be more profitable than software services?

Lululemon achieved this by expanding to the U.S. and focusing on e-commerce. Now, another Vancouver-based brand is trying to replicate this growth strategy. **Aritzia** (TSX:ATZ) has been expanding its U.S. locations and investing in its e-commerce infrastructure to drive growth. So far, the results have been impressive.

In its latest quarter, the company reported a 66% jump in revenue. Net income during the same period was up 113%. Revenue in the U.S. was up 108.8% while e-commerce sales surged 21.4% during this quarter.

If the company can sustain this pace of expansion, it could be on track to be the next Lululemon!

Outlook

Aritizia’s management team is focused on sustaining this growth plan for the year ahead. In 2022, the company is expected to expand its portfolio of boutiques by roughly 10 new locations. Meanwhile, up to five existing boutiques will be expanded. The majority of these investments are focused on the U.S. market, where Aritzia is seeing faster growth than any other segment.

This year, the company also plans to spend between $110 million and $120 million to enhance its online shopping experience and add a new distribution centre for online shoppers in the Greater Toronto Area.

The culmination of these investments should boost annual revenue 20% to $1.8 billion. These investments could also help the company sustain its gross margin of roughly 39.4%.

However, these ambitious targets and impressive track record haven't convinced investors yet. Aritzia's stock is down 30% year to date along with the rest of the retail sector. That could be an opportunity for contrarians.

Valuation

Aritzia's market capitalization is $4.22 billion. That implies a forward price-to-sales ratio of 2.3. It also implies a forward price-to-earnings ratio of 22.3.

Put simply, Aritzia stock is cheap when compared to other growth stocks. It's also undervalued when you adjust current ratios for future growth estimates. The management team certainly sees value, which is why they announced a normal course issuer bid to acquire 5% of the company's outstanding shares this year.

Bottom line

Aritzia is rapidly expanding in the U.S. and online. Income has more than doubled over the past year and could continue to grow in the years ahead. However, this growth outlook hasn't been fully priced in, which is why the stock is relatively cheap right now. Keep an eye on this opportunity. Aritzia could be the next Lululemon.

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Date
2025/08/22
Date Created
2022/06/09
Author
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