Aritzia Earnings: Is This 1 of the Best Growth Stocks to Buy Now?

Description

Aritzia (TSX:ATZ), the highly popular and vertically integrated women's fashion company, has been one of the best growth stocks you can buy for years now.

It consistently is growing sales and increasing its store count and now has a tonne of potential, as it grows both its e-commerce and expands across the U.S.

Despite its impressive performance the last few years, though, and all the growth potential it has, the stock has suffered throughout this year, almost completely due to the market conditions.

First, its valuation metrics have come down. That means that the multiples that investors are willing to pay for Aritzia's future earnings potential are lower due to the risk and uncertainty in markets. For example, in January, Aritzia traded for roughly 40 times its forward earnings. Today, the stock is trading at just 20 times its forward earnings.

However, there's also concern from the market that the economic environment — specifically, inflation and a potential recession next year — could impact demand for sales or Aritzia's expenses and ultimately impact its ability to generate earnings.

For this reason, as of Thursday's close, Aritzia was down approximately 40% from the high it reached back in January.

But as the company continues to show each time it reports earnings, the market is underestimating its potential as it continues to beat expectations. Therefore, after another quarter of impressive earnings, Aritzia has to be considered one of the best growth stocks to buy now.

Aritzia starts off its fiscal 2023 with a strong performance

On Thursday, Aritzia reported earnings for its first quarter of fiscal 2023, and there were a ton of positive takeaways.

First off, the company achieved net sales growth of 65%, which was well ahead of the consensus expectations of 50%. Furthermore, the stock also beat on the bottom line, reporting earnings per share (EPS) of $0.35, compared to the consensus estimate of $0.31 and the $0.19 EPS it earned in the same quarter last year.

Both of these are positive for several reasons and show why Aritzia is one of the best growth stocks to buy in this environment.

The strong sales growth shows that despite surging inflation, demand for Aritzia's products continues to show no signs of slowing. This is in large part due to Aritzia's incredible merchandising and its ability to continue offering products that resonate with consumers.

Furthermore, its beat on the bottom line shows that despite inflationary pressures impacting costs, its superior economics, which continue to improve with scale, is crucial to helping the company offset the temporary impact on its margins.

There were other impressive takeaways from these first-quarter results as well, which show why Aritzia is one of the best growth stocks to buy. For example, although store closures from the pandemic impacted sales last year, Aritzia's e-commerce revenue this year actually grew by another 15%.

In addition, sales in the United States were up a whopping 81% compared to the same quarter last year. And considering the fact that more than half of Aritzia's stores are located in Canada, while the U.S. has nine times the population, Aritzia has a significant long-term opportunity to expand its operations.

At Aritzia's current valuation, it's one of the best growth stocks to buy now

Aritzia is firing on all cylinders, and even if its margins are pressured by rising costs in the near term, it continues to execute its growth strategy well and gain additional market share.

Therefore, while the stock is trading undervalued, it's easily one of the best growth stocks to buy.

As I mentioned above, Aritzia is trading at just 20 times its expected EPS over the next year, down from 40 times back at the start of the year.

So, thanks to its future earnings expectations continuing to grow, despite the fact that its stock is only down 40%, the valuation for Aritzia is down by 50%. In addition, at 20 times its forward earnings, Aritzia is the cheapest it has traded since the start of the pandemic.

Therefore, while one of the best Canadian stocks continues to perform well yet is significantly undervalued, it's undoubtedly one of the best growth stocks to buy now.

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