Aritzia Stock Is Recovering, But Is it Still Undervalued?

Description

Since growth stocks have been some of the biggest losers so far this year, naturally, they are some of the best stocks to buy in this environment. And while there are several high-quality growth stocks to consider today, one company that continues to fire on all cylinders is **Aritzia** (TSX:ATZ).

In recent weeks, Aritzia stock has been recovering. Back in mid-June, the stock bottomed at just over $30 a share. So after Tuesday's close, with the stock trading at roughly $42.50, it certainly has recovered some of those losses. However, ATZ is still well off its 52-week high of $60, even as the stock continues to grow and perform well.

So is Aritzia's stock still undervalued today, or was the stock just overvalued back when it peaked at $60 a share?

Aritzia stock is one of the most attractive investments to buy for growth

Since Aritzia's stock has already sold off significantly this year, investors will no doubt find it an attractive investment. But the number one reason to consider investing in Aritzia stock today is its incredible growth potential.

Aritzia's boutiques have long been significant cash cows. In general, the retailer is paid back the cost of opening a new boutique within two years. Furthermore, Aritzia's e-commerce strategy has also been impressive. This combination of opening new stores as well as attracting more customers online has worked well for the fast fashion retailer, even allowing it to grow through the pandemic.

In 2019, the year leading up to the pandemic, Aritzia managed to do $980 million in sales. Meanwhile, over the last four quarters, its sales have totalled just under $1.7 billion, that's an increase of 69% in just two and a half years. Over the same period, operating income jumped from $152 million to $259 million. That's an increase of 70%.

In the face of the pandemic and now rapidly rising interest rates and inflation, Aritzia continues to perform well and grow its business. Plus, going forward, the *everyday luxury* fashion retailer has a massive runway for growth.

At present, about two-thirds of its boutiques are located in Canada. Meanwhile, the United States has a population that's roughly nine times greater than Canada. Therefore, as Aritzia rapidly expands its store count across the United States, ATZ provides significant opportunity to grow investors' capital.

Is Aritzia still undervalued?

Aritzia's considerable long-term growth potential is certainly attractive. But in this environment, many investors want to make sure they're getting the most bang for their buck as well. So let's look at just how cheap Aritzia stock is today.

As of Tuesday's close, Aritzia was trading with a forward price-to-earnings (P/E) ratio of roughly 24 times. That's above where it bottomed in June and July, between 19 and 20 times its forward earnings. However, ATZ is still well undervalued and below its three- and five-year historical averages of 45 times and 35 times, respectively.

In addition, Aritzia stock is also far cheaper than similar competitors such as **Lululemon**, which currently has a forward P/E ratio of more than 31 times.

Therefore, while this incredible growth stock trades below both its peers and its historical averages, it's certainly undervalued and one of the best growth stocks that you can buy today.

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