2 Retail Stocks That Are Too Cheap to Ignore

Description

Companies that are part of the retail sector typically sell products directly to consumers. These entities are categorized under the "consumer discretionary sector" and offer products ranging from electronics to books and toys to much more.

Canadian retail stocks have had a long and productive history. But in recent years, the COVID-19 pandemic and the growth in e-commerce have acted as headwinds for the retail sector. But as the Canadian retail industry continues to evolve, let's take a look at two retail stocks that are too cheap to ignore right now.

Lululemon Athletica

A Canada-based multinational athletic apparel retailer, **Lululemon Athletica** (NASDAQ:LULU) is valued at a market cap of US$44 billion. Down 26% from all-time highs, LULU stock has returned 2,420% to investors since its initial public offering in 2007.

Despite a challenging macro environment, Lululemon increased revenue by 29% year over year in the fiscal second quarter (Q2) of 2023 (ended in July). Its same-store sales rose by 23% year over year while adjusted earnings surged by 42% compared to the year-ago period.

Lululemon has been among the fastest-growing, large-cap retail stocks on the planet, increasing sales from US$3.28 billion in fiscal 2019 to US$6.25 billion in fiscal 2022. In the last 12 months, its operating profit stood at US$1.5 billion, indicating a margin of 21.6%, which, again, is among the best in this sector.

The company's gross margin of 56.5% provides Lululemon with the required flexibility to tide over an inflationary environment and rising input prices. Its strong brand value also allows Lululemon to enjoy pricing power and transfer a portion of these costs to consumers.

LULU stock is priced at less than five times fiscal 2024 sales and a price-to-forward earnings multiple of 31, which might seem expensive. But the company is forecast to increase its sales to US$9 billion in fiscal 2024, while earnings expansion is forecast at 22% annually in the next five years.

Lululemon has managed to beat analyst earnings estimates in each of the last four quarters and remains a top bet for growth investors. Lululemon, in fact, expects sales to surpass US$12.5 billion in fiscal 2026, and it is well poised to deliver market-beating returns to investors in the future.

Aritzia

A Vancouver-based women's fashion brand, **Aritzia** (TSX:ATZ) is valued at a market cap of $5.83 billion. The mid-cap retail company now aims to gain traction south of the border, which will be a key driver of top-line growth in the upcoming decade.

The United States is a much larger market for Aritzia, which has already increased sales from $874.3 million in fiscal 2019 to $1.49 billion in fiscal 2022 (ended in February).

Analysts tracking ATZ stock expect revenue to touch $2.24 billion in fiscal 2024, while adjusted earnings are forecast at $2.13 per share. So, the company is valued at 2.36 times forward sales and 25 times forward earnings, which is reasonable considering its growth forecasts.

Bay Street analysts expect Aritzia to improve its bottom line at an annual rate of 22.5% in the next five years.

ATZ stock went public in October 2016 and has since tripled investor returns. It's currently trading 10% below all-time highs.

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