Here's the Next TSX Stock I'm Going to Buy

Description

I'm a growth investor, and the current environment is extremely favourable for investors like me. Most investors are too focused on dividend and interest income, which means growth stocks are being overlooked. That creates an opportunity for long-term investors. Here's a closer look.

Income stocks are in vogue

Income-seeking investors have plenty of opportunities in 2023. Risk-free instruments such as the Canadian five-year bond and Guaranteed Investment Certificates (GICs) offer annual yields of 2.9% to 5.3% right now. Meanwhile, blue-chip dividend stocks offer 6-8% and small-cap energy stocks could deliver dividend yields of 10% or higher in 2023.

However, energy stocks and blue chips could deliver lower-than-expected dividends if the upcoming recession is severe.

Put simply, a conservative investor can safely expect 5-6% yield for the next few years. After that, I expect yields to dip lower. However, I believe some growth stocks can offer substantially higher returns over longer time horizons. That's why my next TSX stock is an underappreciated growth stock.

My next TSX stock

Luxury fashion brand **Aritzia** (TSX:ATZ) has managed to avoid the retail Armageddon so far. While most retailers faced higher prices, lower margins and lackluster consumer sentiment, Aritzia has sustained its pace of expansion.

The company delivered $624.6 million in net revenue in its most recent quarter. That's 37.8% higher than the previous year. Net income, meanwhile, came in at $70.7 million. Over the past five years, net income has compounded at an annual rate of 29%.

Aritzia now expects to generate $3.5-$3.8 billion in net revenue in 2027. This implies a compound annual growth rate (CAGR) of 15-17%. The company also expects earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to remain around 19% by 2027. That means roughly $722 million in EBITDA within five years — a CAGR of 15.8% from current levels.

In other words, if Aritzia can meet its targets it can deliver *triple the annual return* of a blue-chip high-yield dividend stock. The stock is down 23.7% over the past year and now trades at a price-to-earnings ratio of 28. That's why I'm likely to add this to my portfolio in 2023.

Bottom line

Investors must strike the perfect balance between risk and rewards. In 2023, the best reward for the lowest amount of risk an investor can expect is between 3% and 6%. However, a mildly risky growth stock like Aritzia can deliver nearly triple that gain over the next four to five years.

For me, the choice is simple. I'd rather take the risk and achieve 15-17% annual returns for the next half-decade. At that rate, I can turn $10,000 into $20,000 by 2027. That's why luxury fashion brand Aritzia is on my watch list for 2023 and beyond.

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