Better Buy: Shopify Stock vs. Aritzia

Description

2023 is shaping up to be an interesting year for growth investors. Growth stocks like **Shopify** (TSX:SHOP) are up 44% in the past month. Others like **Aritzia** (TSX:ATZ) have recovered much of their losses from last year's bear market and are within a 20% range of an all-time high. The market's fears of a deep recession, persistent inflation, and higher interest rates have calmed down in recent weeks.

If this trend continues, growth stocks could outperform the rest of the market by a wide margin. However, investors need to pick the right horses to bet on. Here's a closer look at both the retail growth stocks mentioned above to see which one is a better bet.

Shopify

Shopify stock has nearly doubled — up 95% — since mid-October. Yet the stock is still trading 67% lower than it was at its peak in late 2021. By some measures, this was Canada's poster child for the great-pandemic bubble.

Shopify's growth has slowed down in recent months, but management was well prepared for this. Chief Executive Officer Tobias Lütke has made it clear that the pandemic pulled forward several years of e-commerce growth, and that the industry is now reverting to the mean. That means Shopify probably has lower but steady growth ahead of it.

The stock trades at a price-to-sales ratio of 12. That's significantly lower than its peak valuation of 60 and lower than the five-year average of 29. It's more aligned with other software-as-a-service platforms. Put simply, Shopify is trading at fair value right now.

Meanwhile, Lütke believes the company has a clear path back to profitability in the years ahead after key investments have been completed. This stock could soar if the team meets these reasonable targets.

Aritzia

Aritzia had an inexplicably strong year in 2022. The stock was down just 6% compared to a 8.7% drop in the TSX Index and a much bigger drop in retail stocks. The company's relative strength probably stems from its robust expansion in the United States and continued e-commerce growth.

The team has ambitious growth plans for the years ahead. The company hopes to add eight to 10 new boutiques and expand five to six boutiques every year until 2027. That should help expand revenue and earnings before interest, taxes, depreciation, and amortization by 15% and 19%, respectively, compounded every year.

Meanwhile, the company is already profitable. The stock trades at a price-to-earnings ratio of 29, implying an earnings yield of 3.4%. That's not bad for a rapidly expanding consumer brand.

Better buy

I like both stocks. However, I believe Aritzia looks slightly more attractive as an investment opportunity right now. The company's growth plan is on par with Shopify's growth outlook. However, Aritzia is profitable and more reasonably valued. It's trading at just 1.8 times future (2027) revenue.

In fact, Aritzia also has a buyback program that could take 3,860,745 shares off the market. That's another clear green flag. Investors seeking steady growth should add this to their watch list.

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