Under Armour: Watch out For Danger Signs

Under Armour Inc(NYSE:UA)

In wake of the following, SellShort.com is recommending to begin initiating a short position in Under Armour

MIAMI BEACH, FL, UNITED STATES, February 22, 2016 /EINPresswire.com/ -- Under Armour Inc(NYSE:UA)

In wake of the following, SellShort.com is recommending to begin initiating a short position at the current price of $81,as they reiterate their 12 month price target of $68.

History suggests it can be dangerous to short a security based on valuation alone. Last year, for example, some of the most expensive stocks, including the “FANG”s–Facebook, Amazon, Netflix and Alphabet (Google)–were among the biggest winners in a market replete with cheap laggards. But that latter trend has reversed since January, with many former high-flyers falling back to earth.
With that in mind, it may be the ideal time to bet against Under Armour.

There’s no doubt that the premium sportswear maker’s business has been performing well. Revenue has doubled to $3.7 billion and 12-month earnings-per-share have increased by 59% to $0.97 over the past three years. The share price has clearly reflected this fact, rising 226% over the span.
As with many sports-related companies, sales are often buoyed by having the “right” athletes representing their brands. In Under Armour’s case, the firm has benefited from its affiliation with NBA superstar and 2014-15 most valuable player Stephen Curry, a guard for the champion Golden State Warriors, who is the face of its fast-growing footwear lines. The company recently reported that sales in this category hit $166.88 million, almost twice what it was in the year-ago quarter.

The fact that the company has been growing at a rapid pace doesn’t necessarily mean it will keep doing so, however. Moreover, even if revenues and net profits rise, the key issue is how much is that future performance worth and what does it mean in terms of the share price. If investors are overly optimistic, even out-of-the-park performance could prove to be a letdown.
For Under Armour, various metrics suggest the bulls are extremely confident that the streak will continue. The stock’s trailing 12-month earnings multiple is 83, nearly triple that of the industry and 30% above its 5-year average. The stock also trades at 4.8 times its trailing 12-month sales, 240% higher than the industry counterpart and 17% above its 5-year average. At 11.3, Under Armour’s price-to-book is similarly elevated–310% of the industry mean and 30% above its average. Needless to say, comparisons to the broad market are off the charts.

The performance of Under Armour’s share price this year appears to confirm that expectations have gotten ahead of themselves. While much was made of 22.6% rise following its fourth quarter earnings announcement, the shares are essentially flat for the year. More than likely, the rally was exacerbated by heavy short interest in the stock, which is not necessarily a sign of better days to come. Some might argue that the post-earnings squeeze was just the set-up for initiating a new short, because that side of the trade is no longer as crowded.

There are also questions about the future of Under Armour’s business. Aside from competing head-

to-head with industry leader Nike, which has proved to be no slouch when it comes to marketing its products, the sportswear-maker’s decision to target females ups the ante with a well known competitor, Lululemon. Under Armour has already indicated that the shift in focus will require increased spending on marketing and on enhancing the in-store experience for female shoppers, which could impact margins and undermine near-term profitability.
Such issues don’t necessarily mean that Under Armour will fail in its mission to bring luxury sports apparel to the masses. But even if it does what it says, wildly inflated expectations suggest the stock will likely continue faltering.

steve levy
SellShort.com
3057359816
email us here
