



Should You Buy, Sell, or Hold Hudson's Bay Co. Following its Strong Q4 Earnings Report?

Description

Hudson's Bay Co. (TSX: HBC), one of the largest retailers in North America and the company behind retail brands such as Saks Fifth Avenue and Lord & Taylor, announced fourth-quarter earnings on the morning of April 7, and its stock has responded by rising over 5%. Let's take a closer look at the results to determine if we should consider buying into this rally, or if we should wait for it to subside.

The quality fourth-quarter results

Here's a summary of Hudson's fourth-quarter earnings results compared to its results in the same period a year ago.

Metric	Q4 2014	Q4 2013
Earnings Per Share	\$0.61	\$0.21
Revenue	\$2.63 billion	\$2.41 billion

Source: Hudson's Bay Co.

Hudson's earnings per share from continuing operations increased 190.5% and its revenue increased 9.3% compared to the fourth quarter of fiscal 2013. The company's triple-digit increase in earnings per share can be attributed to net earnings from continuing operations increasing 200% to \$111 million.

Its near double-digit increase in revenue can be attributed to two primary factors. First, digital commerce sales totaled \$304 million in the fourth quarter, an increase of 35.1% compared to the year-ago period. Second, consolidated same-store sales increased 3.2% on a local currency basis compared to the year-ago period, including a 12.1% increase at Saks Fifth Avenue OFF 5TH stores, a 2.6% increase at Saks Fifth Avenue stores, and 2.3% increase at its Department Store Group stores.

Here's a list of six other highly important statistics and updates from the report compared to the year-ago period:

1. Adjusted gross profit increased 14.6% to \$1.06 billion
2. Adjusted gross margin expanded 190 basis points to 40.3%
3. Normalized earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 25.7% to \$318 million
4. Normalized EBITDA margin expanded 160 basis points to 12.1%
5. Operating income increased 3,900% to \$240 million
6. Ended the quarter with \$168 million in cash, an increase of 700% from the end of the year-ago period

Hudson's also provided its outlook on fiscal 2015 and is calling for the following performance:

- Revenue in the range of \$9-9.3 billion, an increase of 10.2-13.8% from fiscal 2014
- Consolidated same-store-sales growth in the low single digit percentage range
- Capital investments in the range of \$350-400 million, a decrease of 6.1-17.8% from fiscal 2014

Should you buy shares of Hudson's Bay today?

Increased customer traffic at Hudson's Bay Co.'s stores led it to a very strong fourth-quarter performance and its stock has responded accordingly by rising over 5%.

Even after the post-earnings pop in Hudson's stock, I think it represents an attractive long-term investment opportunity because it still trades at favourable valuations, including just 21.6 times fiscal 2014's earnings per share from continuing operations of \$1.31. I think Hudson's stock could consistently command a fair multiple of at least 25, which would give it a fair value of about \$32.75 today, meaning it trades at a discount of more than 15% at current levels.

With all of the information provided above in mind, I think Hudson's Bay Co. represents one of the best investment opportunities in the retail industry today. Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/10/01

Date Created

2015/04/08

Author
jsolito

default watermark

default watermark