Should You Buy or Avoid Hudson's Bay Co. Today?

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, Lord & Taylor, and Hudson's Bay, announced first-quarter earnings results on the morning of June 10, and its stock has responded by rising about 1%. Even after this slight rally, the stock still sits more than 16% below its 52-week high, so let's take a closer look at the results to determine if we should consider initiating long-term positions today.

Breaking down the first-quarter report

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

Metric	**Q1 2015**	**Q1 2014**
Normalized Earnings Per Share	($0.18)	($0.15)
Revenue	$2.07 billion	$1.89 billion

Source: Hudson's Bay Co.

In the first quarter of fiscal 2015, Hudson's Bay reported a normalized net loss of $33 million, or $0.18 per share, compared with a normalized net loss of $27 million, or $0.15 per share, in the year-ago period, as its revenue increased 11.7% to $2.07 billion.

Hudson's Bay's widened net loss can be partially attributed to its selling, general, and administrative expenses increasing 14.5% to $780 million, and its depreciation and amortization expenses increasing 22% to $100 million, which more than offset the positive impact of its costs of sales increasing just 7.6% to $1.23 billion.

Its very strong revenue growth can be attributed to two primary factors. First, the company's same-store sales increased 11.7%, including 10.3% growth at OFF 5TH, 4.9% growth in its Department Store Group, and 0.6% growth at Saks Fifth Avenue. Second, it opened of four new OFF 5TH stores and one new Saks Fifth Avenue store over the last year, bringing its total store count to 327.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Same-store sales increased 2.7% on a constant-currency basis
2. Digital sales increased 37.2%
3. Adjusted gross profit increased 12.2% to $846 million
4. Adjusted gross margin expanded 20 basis points to 40.8%
5. Normalized earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased 1% to $96 million
6. Normalized EBITDA margin contracted 60 basis points to 4.6%

Hudson's Bay also announced that it will be maintaining its quarterly dividend of $0.05 per share, and the next payment will come on July 15 to shareholders of record at the close of business on June 30.

Should you be a long-term buyer of Hudson's Bay today?

It was a solid quarter overall for Hudson's Bay, so I think the slight post-earnings pop in its stock is warranted. I also think this could be the beginning of a sustained rally back toward its 52-week high. The stock still trades at attractive valuations, including just 28.9 times fiscal 2015's estimated earnings per share of $0.84 and only 23.1 times fiscal 2016's estimated earnings per share of $1.05, both of which are inexpensive compared with its long-term growth rate.

With all of the information provided above in mind, I think Hudson's Bay represents a great long-term investment opportunity today. Foolish investors should consider beginning to scale in to positions.

CATEGORY

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