



The Digital Business Is Key to Hudson's Bay Co's Success

Description

Canada's iconic retailer **Hudson's Bay Co** (TSX:HBC), [reported](#) strong fourth-quarter results in early April; yet its stock price since then has withered on the vine, dropping a couple of bucks from the high teens. It hasn't been this low since mid-February when it dropped below \$15.

What gives?

Well, the easy answer is that department store stocks over the past 52 weeks have taken it on the chin, losing 35% of their value, a much bigger decline than the 1% total return of the S&P 500 in the same period. But turn the page to 2016 and you get a completely different story with the S&P 500 Department Store Index—comprised of **Macy's, Inc.** ([NYSE:M](#)), **Kohl's Corporation** ([NYSE:KSS](#)) and **Nordstrom, Inc.** (JWN)—which is up 10.4% through April 25. Hudson's Bay, on the other hand, is down 8.1% year-to-date through the same period.

The company is very much like a master illusionist, keeping you busy watching what he or she wants you to see and not what you need to see in order to understand how the illusion is performed.

Yes, it's made some significant acquisitions (Kaufhof, Gilt Group) and real estate transactions (HBS Global Properties) in the past year, and certainly it's always nice to report annual revenue growth of 37% and 2.5% comparable-store sales growth on a constant currency basis, but unless it gets its digital business working, none of these numbers will matter one bit.

Don't be fooled by the fact that digital sales increased by 49% in 2015 or that comparable digital sales grew 23% on a constant currency basis; while these are good in a vacuum, Hudson's Bay makes no attempt to break out what that means in terms of actual dollars.

A company with \$11.2 billion in revenue should generate at least \$1.1 billion from its digital business. Macy's, which is having trouble generating growth from its 800-store network, had estimated online revenues in 2015 approaching \$5 billion, or 17% of its overall revenue.

The fact that Hudson's Bay hired two executives last fall from leading U.S. retailers to deliver the goods online is an indication that it's serious about boosting those numbers but until it does, Hudson's Bay

stock is, in my opinion, a big question mark.

Would I buy it at these prices? You bet I would. Richard Baker has worked tremendously hard to make Hudson's Bay a great retailer—and not just real estate company—and although I wouldn't say it's there quite yet, it's made huge strides in the past seven years under his ownership.

When it finally breaks out its digital numbers, I have complete faith its stock will break out also.

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