Can Global Expansion Take Hudson Bay Co to $20?

Description

Department store operator **Hudson's Bay Co** (TSX:HBC) announced Tuesday that it was opening as many as 20 new stores in the Netherlands over the next two years. That comes on the heels of its preliminary first-quarter earnings report that can best be described as solid, if slightly uneven in spots. Clearly, there's still a lot of work to be done at the retailer, whose stock is trading near a four-year low.

Is global expansion the answer to what ails Hudson's Bay stock? More importantly, can this latest move push its stock over $20 in the next six to 12 months?

The short answer: it's complicated.

When I examine individual stocks, I'm always looking for that one thing that gives a particular business an edge over its competitors. In the case of Hudson's Bay, the edge is majority owner Richard Baker. Any person who manages to sell a bunch of leases for $1.8 billion to **Target** only to see them up for grabs less than four years later is a brilliant allocator of capital.

However, just because he's good at real estate doesn't mean he's good at retail. They're two entirely different kettle of fish. Baker knows this. That's why he's hired a lot of retail talent in recent times to elevate all of Hudson's Bay's brands to the next level. And he's also not afraid to admit mistakes.

In April 2015, he removed Marigay McKee as president of Saks Fifth Avenue after only 15 months, replacing her with company veteran Marc Metrick. While McKee was a good merchant, she wasn't necessarily the best boss. Metrick brought experience and temperament–a better fit to be sure.

In my opinion, Baker has done much to elevate Hudson's Bay's game. He's not Eddie Lampert (CEO of **Sears**), despite the obvious comparisons. All Lampert has done is slowly dismantle a once-great business by selling off the pieces bit by bit. Who knows if he'll ultimately be successful, but you don't grow without change.

While a company can grow through acquisitions–I believe an Asian buy isn't too far away for Hudson's Bay–a good retailer spots organic opportunities and pounces.

“The Hudson’s Bay and Saks OFF 5TH banners, tailored for the Dutch market, will introduce our all-channel retail model to the Netherlands with a combination of exciting retail destinations and a best in class ecommerce presence,” Jerry Storch, Hudson’s Bay’s CEO, was quoted as saying in the press release.

The bottom line is, confidence breeds more confidence.

Suppliers will see this as another example of why they should do business with Hudson’s Bay. It’s prepared to do the heavy lifting required to be a global player in department store retail. Employees will see it as a stamp of approval by Baker and executive management that their work is making a difference to the company.

Will this move push Hudson’s Bay stock to $20 over the next six to 12 months? Not on its own it won’t, but given the negativity circling department store retail at the moment, it’s hard to imagine anything that could.

Ultimately, investors will determine the fate of Hudson’s Bay stock. However, I believe $14 is simply too low, given all that’s being done to move the ball forward. If you’ve got some money to risk, in three to five years, you will be rewarded, but $20 by the end year might be pushing it.

CATEGORY

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