Is the Negativity Around Hudson's Bay Co Warranted?

Description

Hudson's Bay Co (TSX:HBC) recently reported a decline in sales for the most recent quarter, sparking questions from investors as to whether the continent's oldest retailer is a good investment or not.

During that most recent quarter, Hudson's Bay posted a net loss of $125 million, or $0.69 per share. By way of comparison, results from the same quarter last year produced net earnings of $7 million, or $0.04 per share.

Comparable sales dropped by 4% in the quarter, primarily attributed to a decline across both the Saks Off Fifth and Gilt divisions by 8.4%.

Not all news was bad, however, as digital sales in the quarter saw 73% growth year over year, and consolidated retail sales for the quarter came in at $3.3 billion, representing a 28.6% improvement over the $2.6 billion posted for the same quarter last year. The increase in sales can be attributed to the addition of the company's acquisitions in Europe as well as the online Gilt retailer.

Since the results came out, the stock has retreated to its lowest level in over a year, and Hudson's Bay now sits down nearly 30% year-to-date.

While the knee-jerk reaction of many investors would be to offload or forget about the stock, here are a few reasons why you may want to hold off selling and possibly look to buy some of the stock in the new year.

HBC is in the midst of a massive transition

The Hudson's Bay of today is a far cry from what the retailer was just a few short years ago. Stuck between the online and physical retail worlds, Hudson's Bay was coping with a glut of properties, dying brands, and an overall inability to reach out to a target audience.

What Hudson's Bay did in this regard is nothing short of remarkable. The company sold 189 underperforming, low traffic leases, primarily Zellers stores, to Target Canada in that company's illfated attempt to enter the Canadian retail market.

That deal brought in $1.8 billion, which Hudson’s Bay then used to purchase the Saks Fifth Ave and OFF 5th brands. As impressive as this was, Hudson’s Bay then proceeded to have the Saks flagship store in New York appraised at $3.7 billion, exceeding the amount that was paid for the brand by $800 million.

Hudson’s Bay continued to expand further, first by purchasing online retailer Gilt, and then by acquiring Galeria Hauhof–one of the largest and well-known retailers in several European markets.

The full potential of these deals has yet to materialize, and Hudson’s Bay also alluded to a number of additional changes that will make the retailer a market leader.

HBC is setting up for the future

One of the most impressive investments that Hudson’s Bay has done in recent memory was the opening of a newly upgraded distribution centre in Toronto. The $60 million upgrade to the distribution centre was described by CEO Jerry Storch as going from “an abacus to a MacBook Pro.”

Why is this significant?

The new distribution centre uses robots to identify and prep products for shipping across the massive 725,000 square foot warehouse. By way of comparison, under the current system of identifying and prepping products for shipment, workers are accustomed to walking over 15 km per day to locate products, and preparing to ship an item could take as long as two hours. The new system identifies and preps an item in under 15 minutes.

This move is an aggressive one by Hudson’s Bay, which has arguably been playing catch up with other retailers over the past few years; it puts Hudson’s Bay within striking distance of retail shipping heavyweights south of the border.

The distribution centre is one of the last pieces of the puzzle of rebuilding Hudson’s Bay. We’ve already seen the company prioritize higher-traffic locations, offload lower-performing locations and brands, add new retail channels both online and in new markets, and now upgrade the distribution arm of the business.

This is not the Hudson’s Bay of years passed, and, in my opinion, the current dip in results, which is more about the overall economy and not Hudson’s Bay specifically, remains an intriguing investment option.

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Date
2025/07/29
Date Created
2016/12/27
Author
dafxentiou