



Where Does Hudson's Bay Co. Go From Here?

Description

Hudson's Bay Co. (TSX:HBC) is finally starting to see some upside after being in a house of pain for over a year. The company has been oversold and now has a dirt-cheap valuation, but is Hudson's Bay just another "cigar butt" stock, or is there a real possibility of rebounding to new highs?

Shares of Hudson's Bay rallied following the news that the company has approached **Macy's Inc.** ([NYSE:M](#)) regarding a potential takeover. There's no question that the retail environment has become extremely difficult lately, and to say Hudson's Bay is struggling would be a vast understatement. The company reported a huge net loss in its last quarter, and the sales estimates were lowered by \$1 billion. The management team needs to adapt to the digital age to drive sales going forward, but the company hasn't adapted fast enough.

It's going to be tough to turn things around, but many investors are buying Hudson's Bay for the real estate assets alone. The company owns real estate assets worth \$36 per share, and the retail operations are worth just \$8 per share. Hudson's Bay seems to be more interested in its real estate assets than turning around its retail business. This is not encouraging news for anyone hoping the company could make its retail stores great again.

Hudson's Bay is facing some serious headwinds, and it won't be simple to turn its retail business around. And acquiring Macy's could turn out to be an extremely risky move.

Macy's is also struggling. The stock lost 55% of its value since the summer of 2015, and there looks to be no relief in sight. Hudson's Bay would be making an even bigger bet on the retail sector, which looks to be falling into the abyss. If Macy's can't adapt to the changing retail environment either, then things could come crashing down in a hurry.

Hudson's Bay currently trades at a 0.8 price-to-book multiple and offers a 1.8% dividend yield. It definitely appears cheap, but it appears that the company is turning into a real estate play, and there are much better options out there if you're looking to invest in a REIT.

Hudson's Bay is essentially going all-in with this Macy's deal, and the stakes have been raised. However, with high risk comes high reward, but as of right now, I think an investment in Hudson's Bay

would be a shot in the dark. There could be more downside from here, so I'd advise investors to be cautious.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:M (Macy's, Inc.)

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