# Oversold (Hudson's Bay Co.) vs. Overbought (Empire Company Limited)

## Description

*Editorial Note: A previous version of this article stated that Richard Baker is HBC's CEO when, in fact, he is Governor and Executive Chairman of HBC. (3.30.2017)*



Investors had enough of the M&A speculation surrounding **Hudson's Bay Co.** (TSX:HBC), sending its stock reeling to a level it hasn't seen since mid-January and prompting the *Globe and Mail* to call it one of the most oversold stocks on the TSX last week.

Meanwhile, **Empire Company Limited** (TSX:EMP.A) traded up 5% to levels it hasn't seen since November, making it one of the *Globe's* most overbought stocks.

Oversold vs. overbought: Which is the better buy?

**Empire Company**

The holding company, whose biggest investment is Sobeys, Canada's second-largest grocery store chain, announced Q3 2017 earnings March 15. While earnings fell 58% year over year to $34.6 million (excluding write-downs), it still managed to deliver a profitable quarter providing investors with some hope.

"Our results are not where they need to be," said Empire CEO Michael Medline in his first earnings release since being hired in January. "It is up to management to put in place a game plan to aggressively address our cost and customer issues to return Empire to sustainable and profitable growth and, although it will take time, we will deliver such results."

If the name sounds familiar, that's because Medline was CEO of **Canadian Tire Corporation Limited** until being relieved of his duties last July. When Medline was hired back in January, I argued that the executive's hiring was a risky move given that he has no experience in the grocery business, where margins are paper thin.

However, Medline has managed to calm investors, signaling in its press release and conference call that profit margins are stabilizing and its store prices are better aligned with its customer profile.

The biggest issue he sees at Sobeys is turning it from a regionally operated grocery business to that of a national operator — something that was supposed to have been done after Empire acquired Safeway for $5.8 billion in November 2013.

Kudos to Medline for recognizing Sobeys had badly mishandled Safeway's integration over the past three years. Clearly, Medline's experience at Canadian Tire has helped him identify what's ailing Sobeys.

"I can tell you, every single day that goes by, I realize that the current regional structure we have is very, very difficult to get things done," Medline stated during its conference call.

So, while I questioned Medline's experience in January, I can see why investors have pushed Empire's stock higher: He's got a plan to fix this.

**Hudson's Bay**

It was a double whammy that took down HBC stock last week.



I suggested late the previous week that the rumours of HBC moving on to Neiman Marcus from **Macy's** hurt HBC stock because they painted a picture of Richard Baker, Governor and Executive Chairman of HBC, going from department store to department store, begging for a deal, and that's not how he operates. However, as they say, appearance is everything.

Another problem for HBC was the Saks data leak, which left many of its web pages unencrypted with customer information and readily available to the public. Data breaches almost always have a negative effect on stock prices.

After all, investors are left wondering how it could possibly acquire either Macy's or Neiman Marcus successfully if it can't even keep its customers' data private.

The truth is, data breaches happen all the time in retail; unfortunately for HBC, Saks got caught. Hopefully, it will learn from this and will seriously tighten its IT security.

**Which is the better buy?**

Here's an interesting fact.

HBC reports its fourth-quarter earnings on April 5. In February, it projected adjusted EBITDA and revenue for the year would be at least $615 million and $14.4 billion, respectively; Empire Company's results for the first nine months of the fiscal year and announced March 15 had revenues at $18 billion and adjusted EBITDA of $603 million — a margin of 3.4% and 90 basis points fewer than HBC.

Last April, when HBC released its Q4 2016 earnings, it projected adjusted EBITDA of $800 million. Clearly, it's going to come in around 75% of its projection. At the same time, Empire's adjustedEBITDA for the first nine months of fiscal 2017 declined 32% from last year — also a big drop.

For me, it all comes down to CEOs.

Baker, in my opinion, is the better chief executive. Therefore, long term, I think HBC is the better buy.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:EMP.A (Empire Company Limited)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Yahoo CA



**Category**

1. Investing

**Date**
2025/08/25
**Date Created**
2017/03/28
**Author**
washworth