Should You Invest in Hudson's Bay Co.?

Description

Investing in the retail sector today is much riskier than even just a few years ago, Retailers, particularly legacy retailers that are accustomed to large showrooms and flagship stores, such as **Hudson's Bay Co.** (TSX:HBC), are under increasing pressure to slash costs amid falling sales and declining traffic.

For Hudson's Bay, the past few years have been a tumultuous roller-coaster ride of highs and lows.

Just a few short years ago, Hudson's Bay was being dragged down by the flailing Zellers brand and stuck with hundreds of low-traffic store leases which garnered few sales for the company. When an opportunity arose to offload those locations to another brand that was entering the Canadian market, Hudson's Bay jumped on it and offloaded many of those stores for a sizable amount, finally putting an end to the troubled Zellers brand.

Hudson's Bay then proceeded to expand into the U.S. market, purchasing both the Saks Fifth Avenue and Lord & Taylor retailers, followed by the purchase of the online retailer Gilt.com as well as purchasing European fashion chain Galeria Kaufhof.

Hudson's Bay has attempted several solutions to prop up the upscale retailers, but those attempts were met with limited success.

Plan for the worst and hope for the best?

In a fourth-quarter-results announcement, Hudson's Bay noted that the company posted a $152 million loss in the quarter. A fourth-quarter loss for a retailer is never a good sign, especially when holiday season sales are factored in to that quarter.

Hudson's Bay also noted the company is planning to combine the online market space for both the Saks Off 5th and Gilt.com brands, both of which are struggling with weak sales. To facilitate that shift, the company took at one-time $116 million charge on both brands. CEO Jerry Storch commented on the move: "We're planning as if the environment is not going to improve."

With first-quarter results still over a month away, investors are wondering if an investment in Hudson's

Bay is a prudent option now.

Despite the negative results from last quarter, I see a small sparkle of potential in Hudson’s Bay, particularly with respect to the combining of the online stores of two of the company brands.

Last fall, Hudson’s Bay announced that a newly upgraded distribution centre was opening in Toronto which would use robots to identify and prep products for shipping in under 15 minutes. That is a considerable upgrade over the two hours it took for staff to traverse the 725,000-square-foot warehouse previously.

The $60 million upgrade put Hudson’s Bay at the forefront of shipping capabilities — on par with some of the biggest online retailers in the U.S. — and here is where things get interesting.

Distribution centres such as the new one in Toronto are used primarily for packaging and shipping online orders, and, as we know, Hudson’s Bay has been steadily enhancing all aspects of its online presence over the past few years. Continued investment into the online segment of the company could over time become a significant source of revenue.

Is Hudson’s Bay a good investment?

Hudson’s Bay is an intriguing investment that has improved considerably over the past few years, but it remains short of what the company could become. Investors with an appetite for risk that are seeking a retail stock for their portfolios may want to consider a small position in the company. Ultimately, Hudson’s Bay may be too much of a risk for most investors.

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dafxentiou