Why This Retailer Plummeted 14% and What This Means for Investors

Description

Founded in 1670, **Hudson's Bay Co.** (TSX:HBC) is Canada's oldest retailer, and with more than 480 stores and over 66,000 employees around the world, it is hard not to have a soft spot for the company. And that is what makes the company's dismal third-quarter results that were reported yesterday all the more painful.

Retail sales declined 4.2%, while same-store sales declined 3.2%, as it seems shoppers continue to turn elsewhere. This represents another quarter of results that are well below expectations. That's not a good sign.

But is this a reflection of a terrible retail environment or is it a company-specific issue?

Well, all evidence points to the latter, as we are seeing companies such as **Canadian Tire Corporation Limited** (TSX:CTC.A), **Dollarama Inc.** (TSX:DOL), **Sleep Country Canada Holdings Inc**. (TSX:ZZZ), and **Indigo Books and Music Inc.** (TSX:IDG) all report strong revenue and earnings growth.

With total same-store sales increasing 3.9%, earnings per share increasing 5.9%, and ambitious financial targets for the years to come, Canadian Tire's transformation continues to impress. The company is leveraging its strong brand name, has embarked on an aggressive cost-cutting program, more targeted marketing, and an aggressive e-commerce investment to ensure that it remains relevant and profitable for years to come.

Dollarama, which just reported its third-quarter results, continues to show strong sales and earnings growth. Total sales increased 9.7%, and same-store sales increased 4.6%, accompanied by increasing margins and a 25% increase in net earnings per share to $1.15.

Sleep Country's revenue in the third quarter increased 15.8% — a result of a very strong 11.5% increase in same-store sales and the addition of nine new stores. The gross margin increased to 26.2% from the 24.8% posted in the same quarter last year, as distribution expenses decreased to 16.6% of revenue and other costs declined.

This follows a very successful 2016, when revenue increased 14.8% to $523.8 million due to a 10% increase in same-store sales and the addition of 11 stores.

Lastly, Indigo is still achieving strong sales growth, especially at the newly renovated locations — or the “new age department store,” as CEO Heather Reisman calls it — and online.

And while the latest quarter saw a 2.8% increase in same-store sales, these newly renovated stores are growing at 16%, and the online segment is growing at double-digit rates.

In summary, investors should stick with the retailers who are proving ready and able to navigate this new retail environment, as many legacy retailers will not necessarily make it through to the other side.

The consumer remains strong, and there are many good opportunities for investors to share in this strength.

CATEGORY

1. Investing

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1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)
3. TSX:IDG (Indigo Books & Music)
4. TSX:ZZZ (Sleep Country Canada)

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