This Stock Has Been Oversold and Could Be Due for a Recovery

Description

Hudson's Bay Co. (TSX:HBC) saw its share price drop more than 12% last week, as a disappointing earnings result sent the stock from nearly $12 a share to barely over $10. In the company's third quarter, sales of $3.2 billion were down 4% from a year ago, and a net loss of $243 million was almost double last year's loss of $125 million.

The results do no favours for a company that has been under scrutiny for much of the year. With the stock on the decline again, it could be a good opportunity for investors to buy in at a low price. Let's take a closer look at the earnings results and assess if HBC's stock is still a good buy.

Comparable sales down

A big reason behind the drop in sales for the quarter was due to the company's comparable sales being down as much $104 million, which made up most of the $140 million decline in year-over-year sales. Foreign exchange also had a negative impact on the quarter's earnings and caused an unfavourable variance of $64 million.

HBC remains optimistic for 2018

The company said that its Transformation Plan, which is expected to save HBC as much as $350 million annually, is still on track, although it did present some challenges for the company as a result of related workforce reductions. The company also expects cash to be in a better position, as it will look to bring down its inventory and reduce capital investments.

Change in strategy could free up cash

The company sold one of its flagship locations back in October, possibly in response to shareholder pressure. However, HBC has indicated it is willing to sell more of its real estate assets to generate value for shareholders, and that could create opportunities for a company that has been struggling to generate positive cash flow from its operations.

With more cash HBC could further grow its business and take on more acquisitions, as it works to expand its operations, particularly in Europe.

Share price has dipped into oversold territory

At the end of trading last week, HBC's stock reached an oversold status with its Relative Strength Index (RSI) dropping below 29. When the RSI level reaches less than 30, that indicates that a stock's losses have significantly outweighed its gains and that it could be due for a reversal.

The last time the stock was oversold was back in June, when it reached its 52-week low of just over $8. It would subsequently go on to rise in price and, for much of the year, would have strong support at $10 a share, which is where it finds itself now.

Should you consider buying HBC?

Despite the negative attention the stock has received in the past several months, I still think HBC is a good investment for investors that are not afraid of taking on a little risk.

As the brand continues to grow and expand its operations, sales and profits will follow. HBC's focus on higher-end items makes it a more appealing retail investment than companies with smaller margins that will be more significantly impacted by rising minimum wages and other factors that will drive up costs in the industry.

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