Hudson's Bay Co.: When Real Estate Trumps Retail

Description

In the new retail environment, we are getting a clear sense of who the winners will be and who the losers will be. Unfortunately for iconic department store **Hudson's Bay Co.** (TSX:HBC), they are not on the winner's side.

The third quarter of 2017 gives us a glimpse of the struggles this retailer is facing. With sales continuing to decline as shoppers go elsewhere and the company reporting steepening net losses, it is clear that something has to change.

In fact, the third quarter loss was not just slightly lower than last year and expectations, but significantly lower. The $1.11 net loss per share was double the loss reported last year and 50% lower than expectations.

To try to offset these massive declines, the company has embarked on a restructuring plan that is expected to generate $350 million in annual savings starting in 2018. That's good news, but will it be enough?

What the company really needs is a way to get shoppers back, increase sales and provide customers with a reason to choose Hudson's Bay over the competition. This would require an enticing platform that would see a big investment in its digital and e-commerce strategy, as well as better branding and target marketing.

Another path to shareholder value creation is for the company to monetize its real estate holdings, which, according to activist investor Land and Buildings, are estimated to be worth more than $3 billion.

For comparison purposes, Hudson's Bay currently has a market capitalization of $1.8 billion.

Given this value proposition, it would appear that investors could do well buying the shares now as more of a short term trade. As long as they understand that the retail business is bleeding and that the longer the company waits to monetize its real estate value, the worse off they will probably be.

For a longer term investment that is based on business fundamentals, investors should look at these other successful retailers that have clearly done the right things to thrive in this retail environment.

Sleep Country Canada Holdings Inc. (TSX:ZZZ) 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. 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.

Sleep Country will benefit greatly from Sears' departure from the retail scene.

Indigo Books and Music Inc. (TSX:IDG) 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.

It is this success that has prompted Indigo to set its sights on the U.S. Although the track record for Canadian retailers who try to make it in the U.S. is not great, the company is going in slowly. If they are successful, the payoff will be massive.

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