



## Will Hudson's Bay Co. Turn a Corner in the New Year?

### Description

It's been a tough few years for retailers, especially for the iconic Canadian giant **Hudson's Bay Co.** (TSX:HBC), whose stock consolidated in 2017 after plunging ~70% from peak to trough in the years prior. At this point, it looks like Hudson's Bay is on track to be the next victim of the retail fallout triggered by the rise of e-commerce giants. Mall traffic is falling off a cliff, and it looks like another Sears Canada story could be in the making, so with all hope lost, does it still make sense to bottom-fish for this struggling retailer?

Sure, there's a great deal of value that can be unlocked from the real estate assets, but I'm going to look into the retail business to give you a better sense of whether or not it can recover and how it'll be able to do so.

There's no question that Hudson's Bay isn't a stock for the faint of heart. While it may seem like the stock has formed a bottom, I think more pain could be on the horizon if management can't drive store traffic, which I believe will continue to decline, unless management invests a significant amount in innovation. I'm not just talking about the e-commerce platform, Hudson's Bay needs to get traffic to its brick-and-mortar stores up, and in order to do this, management might want to channel **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)), a retailer that has done an [impeccable job of driving traffic](#) into its physical stores.

Unfortunately, Canadian Tire was better equipped to adapt to the changing retail landscape because of the nature of its business. Canadian Tire and its subsidiaries specialize in a very specific category of consumer merchandise, whereas Hudson's Bay is a generic retailer with a very wide range of merchandise.

In addition, Canadian Tire owns various exclusive brands, like MotoMaster and MasterCraft, which the company has been promoting through marketing campaigns, including "Tested for life in Canada." In many previous pieces, I've highlighted the importance of exclusive brands for retailers that are going to survive the onslaught of digital competitors in the new age of retail.

Sure, Hudson's Bay owns some exclusive brands, like Cherokee, Bundle of Joy, and Hudson North,

but you probably haven't heard of such brands, because the power of these brands is quite lacklustre versus Canadian Tire's brands. Sadly, the only way to increase the power of exclusive brands is to invest a great deal into them, but at this point, it's likely too late in the game.

### **An opportunity to turn the retail business around is present**

Due to the sheer size of Hudson's Bay stores, many mall goers go through them just as a means to enter the mall. Having wanderers strolling through the stores isn't a bad thing at all — it's actually an opportunity — but management really needs to keep the attention of these wanderers (perhaps cool tech like at Canadian Tire's SportChek locations); otherwise Hudson's Bay will continue to be a walk-through for many mall goers, and that's not good news for the stock.

### **Bottom line**

Approximately \$350 million worth of annual savings is slated to be enjoyed this year thanks to management's restructuring efforts, but the shopper losses will likely continue, thus steepening net losses until management can really take a page out of Canadian Tire's successful adaptation story.

With no real catalysts on the horizon, I'd stay away from Hudson's Bay, at least until the company can shed more light on a promising turnaround plan. Many investors have lost hope for the retail business and are [focusing on the real estate assets](#), but I don't think the retailer is a lost cause just yet.

There's still an opportunity to get back on track, even with industry-wide headwinds, but bold moves will need to be made. If the retail business can stop the bleeding, contrarians stand to reap major rewards, as shares are ridiculously undervalued considering the underlying value of the red-hot real estate assets.

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