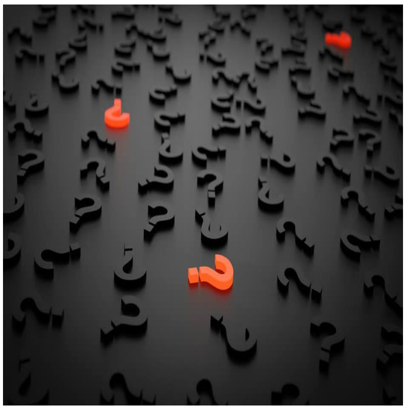

Hudson's Bay Co. (TSX:HBC) and Roots Corp. (TSX:ROOT): Do These Retail Stocks Belong in Your Portfolio?

Description

Canadian retail sales rose 0.6% in the month of March to $50.2 billion. Clothing and accessories stores saw a 2.5% increase in activity after a tumble in February. In early May I'd discussed two retail stocks that investors could stash for the remainder of 2018.

Today we'll look at two stocks that have carried momentum into this year after a choppy 2017. Should you consider buying in June?

Hudson's Bay Co. (TSX:HBC)

Hudson's Bay is a Toronto-based retail business group. Shares were up 1.9% in 2018 as of close on June 14. The stock struggled mightily in 2017 in the midst of an internal battle with a major shareholder.

Land and Buildings Investment Management has applied pressure on Hudson's Bay management since 2017. This dispute led to the departure of former CEO Jerry Storch, who had advocated against scaling back brick-and-mortar operations. Land and Buildings has pushed management to monetize its real estate holdings as its retail operations have struggled mightily.

The company released its first-quarter results on June 5. Hudson's Bay reported a $400 million net loss in Q1, compared to a $221 million loss in the prior year. The online fashion retailer Rue La La announced that it would purchase Gilt from Hudson's Bay. The transaction is expected to close in the second quarter. Hudson's Bay also reported that it would seek to close 10 Lord & Taylor locations through 2019 and reaffirmed its commitment to improving its e-commerce business.

Hudson's Bay saw an improvement in its North American operations, but it was ultimately dragged down by negative performance in Europe. When he departed, Storch warned of a "slippery slope" that the company could fall into after closing stores. Hudson's Bay is simply too risky for me to recommend as we head into the summer.

Roots Corporation (TSX:ROOT)

Roots has been a pleasant surprise after its disappointing initial public offering in October 2017. The stock was up 3.9% in 2018 as of close on June 14. However, shares took a dive after the company released its first-quarter results.

Roots reported a $5.6 million loss in the first quarter compared to a $5.1 million loss in the prior year. The company posted an adjusted net loss of $4.5 million or $0.11 per share compared to an adjusted loss of $3.6 million, or $0.09 per share in Q1 2017. In spite of the poor results, Roots reaffirmed its full-year target of adjusted income between $35 million and $40 million.

Roots is an iconic Canadian brand that has managed to improve its e-commerce business in successive quarters. The company opened two partner-operated stores in Taiwan in Q1. It now boasts over 140 stores in Taiwan and China. **Canada Goose Holdings Inc.** has also made a strong push to expand into Asian markets going forward.

This is a historically weak period for Roots, as it is typically geared to fall and winter gear. Its holiday sales were encouraging in 2017-2018. Roots has outperformed expectations, but Canada Goose remains the more explosive option for those seeking growth. I am staying away from Roots this summer.

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