



Is Hudson's Bay Co. (TSX:HBC) Really Cheap?

Description

Hudson's Bay (TSX:HBC) stock trades at about 67% below its five-year high of roughly \$28.50 per share and at about 21% below its one-year high of about \$12 per share.

Actually, the stock just appreciated about 5% on Wednesday, after it reported its third-quarter results. Is the stock cheap?

First, let's explore the company to see if it's the kind of business you want to own.

A business overview

Hudson's Bay is a global retailer with ancient roots going as far back as 1670; it's, in fact, the oldest company in North America. It has more than 480 stores around the world. In North America and Europe, it operates under the banners of Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks OFF 5TH, Galeria Kaufhof, the leading department store group in Germany, and Belgium's only department store group Galeria INNO.

In Q2, Hudson's Bay made a good move to discontinue its HBC Europe segment to combine its European business with SIGNA's Karstadt to create Germany's leading retailer, of which Hudson's Bay owns a 49.99% stake, at the end of November.



Together they formed a 50-50 real estate joint venture that values the German real estate assets at €3.25 billion. Hudson's Bay will use the \$631 million net proceeds from the transaction to help with debt reduction, which is another good move, although it still has lots of debt.

Q3 results

It was a positive to see Hudson's Bay report sales growth of 5.6% to \$2.2 billion with comparable sales up 2.9%, which was helped by strong comparable sales growth of 7.3% at Saks Fifth Avenue, a chain of luxury department stores in the U.S.

The retailer reported adjusted earnings before interest, taxes, depreciation, and amortization of \$63 million, which was up from \$40 million in 2017, thanks partly to sales growth and an improved gross margin. Unfortunately, it reported a net loss of \$124 million.

At the end of Q3, Hudson's Bay had about \$2.75 billion of long-term debt, while for the quarter, it had net operating cash outflow of -\$969 million.

Valuation and upside potential

At \$9.49 per share as of writing, Hudson's Bay trades at 0.14 times sales, 12.5 times cash flow, and 0.94 times book, compared to the five-year valuations of about 0.3, 32.4, and 1.4, respectively. So, the stock is relatively cheap compared to its historical trading levels.

The analyst consensus from **Thomson Reuters** has a 12-month target of \$10.60 per share on the stock, which implies there's more than 11% near-term upside potential.

Investor takeaway

[Hudson's Bay](#) is cheap for a reason. At the current juncture, the company is a "show me" story. It needs to be profitable with its core retail business in order for its stock to trade significantly higher.

If you're looking for a retailer, you'd be better off considering something like [Dollarama](#), whose stock has shown signs of life in the last week.

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