Post Results: Should You Sell or Hold HBC (TSX:HBC)?

Description

Hudson's Bay Company (TSX:HBC) reported financial results for the fourth quarter and full fiscal 2018 recently, and the results were not entirely unexpected nor positive. Canada's oldest retailer has been circling the drain for years, as a series of efforts to revitalize the retailer that have ranged from masterstroke real estate deals to lucrative acquisition deals have left the company's stock drifting downward over 50% over the course of the past five years and still without a viable plan to address the growing threat of mobile commerce.

Mixed fourth-quarter results

To be fair, there were some positive takes from the recent financial update. The company did manage to return to positive operating cash flow during the fiscal year, and reporting $338 million in adjusted EBITDA for the year, reflecting a 30% year-over-year improvement that was reflected in all of the business units. This is an important point to make for a few reasons, but most notably because Hudson's Bay managed to do so while witnessing a reduction in sales. Specifically, there was a 3.3% decline for the year across the Lord & Taylor, Hudson's Bay and Home Outfitters brands, while Saks Off 5th saw a 4.3% decline.

Additionally, I would be remiss if I didn't at least mention the improvements made under CEO Helena Foulkes, which were instrumental in those improved numbers. Apart from selling the Gilt mobile commerce site, the company also announced a deal to sell off half of its European holdings to another European-based department store, and HBC also made the decision to finally shutter Home Outfitters, with all remaining stores to be closed later this summer.

Closing underperforming stores is a key, yet difficult part of the retail process that as a large retailer, HBC is finally embracing 20 Saks Off 5th stores are already slated to close this year, following several Lord & Taylor stores that have closed over the past year. This leads to an all-important third point:asset sales. The sale of the Manhattan-based Lord & Taylor flagship store for cash and equity is aprime example of this, and a near $800 million gain on the sale of the property is something that willspill over into the next set of quarterly results.

Should you buy, hold, or sell?

As improved as those results may sound, here's the problem: HBC managed those improvements by jettisoning parts of its business. Home Outfitters is (or will be soon) gone. The Lord & Taylor flagship (often referred to as the gem in HBC's real estate crown) is sold. the Gilt website – once perceived as the company's attempts to counter the growing threat of mobile commerce — is also gone. HBC Europe – once seen as a means to get inroads to the European market and become a driver for growth and revenue, also wound down considerably.

To put it another way, HBC has done a phenomenal job at finding efficiencies and offloading parts of its portfolio that were of individual value, but not adding to the overall success of the company. For that, the company is to be applauded, but what comes next? HBC doesn't have another Manhattan-based property valued at over $1 billion to offload, and there is still a much larger problem to be solved in the form of sales, which will need time, and more important, a real solution.

In short, there are signs of improvement at HBC, but for most investors, the stock is just too risky to consider buying. Instead, potential investors should opt for any number of far better options to consider, even in the retail sector.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/07/05
Date Created
2019/04/05
Author
dafxentiou