



## Which Retail Stock Has More Upside: Hudson's Bay (TSX:HBC) or Lululemon (NASDAQ:LULU)

### Description

The retail market is at best a bit of a cyclical mess. However, there are a few gems out there that if investors got in early, they'd be seeing some pretty great rewards right about now.

Then there are those that while they've seen strength in the past, with a recession looming over Canada right now, they probably aren't doing as well as in their heyday.

So what does that mean for investors? Are these stocks providing you with an opportunity? Or is it merely warning investors that the end is coming?

Let's take a look at the potential upside to both **Hudson's Bay Company** (TSX:HBC) and **Lululemon Athletica Inc.** ([NASDAQ:LULU](#)).

### Hudson's Bay

It's been a long time since investors were bullish about Hudson's Bay, and seeing the share price to support it. Back in 2015, shares were trading in the high \$20s. Today, the stock is well under \$10 per share, where it's hovered for about two years.

Now, while it may not seem like much, the recent earnings report release by Hudson's Bay on April 3 actually sent shares up for once. Granted, only about \$0.50, but it still looked like a jump in early trading.

The reason for this increase is Hudson's Bay has been in the process of restructuring itself so it doesn't become another Sears. In fact, it was targeting the Sears audience, and Chief Executive Officer Helena Foulkes admitted that this was a mistake.

The result was lower-priced merchandise to attract a wider audience, but that's not the Hudson's Bay clientele. This resulted in lower revenue over the last few quarters, something the company couldn't fix even with selling so much real estate. Hudson's Bay's fourth-quarter revenue from continuing

operations fell to \$2.89 billion, compared with \$3.05 billion a year earlier. This was well below analysts' expectations of \$3.22 billion. Net loss for the full year was reported at \$631 million.

But now that Hudson's Bay has admitted its mistakes, it knows how to fix them. And it won't be hard to go back to business as usual. In the meantime, as CEO Helen Foulkes told analysts, it wasn't all bad news.

While it's still a process, Hudson's Bay has "returned to a positive operating cash flow, improved the bottom line across all of our businesses, increased profitability by 30% and strengthened [its] balance sheet," Helen Foulkes said.

## Lululemon

Lululemon has been riding high for a while, but right now it's hit heights the company has never seen before. The latest jump after the company's earnings report saw double-digit growth in share price, jumping from \$146.77 to \$169.19 overnight. That's a 15% increase in just a couple of hours!

The share price hasn't come down since that report on Mar. 28, which is due to a few things in the latest report. Lululemon posted revenue of USD\$1.17 billion for the quarter, with analysts' estimating USD\$1.15 billion, bringing its quarterly revenue up 25.6% compared to the same quarter last year.

Then there was some amazing news for investors: a share repurchase program. This would allow the board of directors to buy back \$500,000,000.00 in shares, or 2.6% of its stock. This is a flag for investors to buy, as the company usually believes its stock is undervalued. But some aren't so sure.

There are a few things to watch out for with this stock. One is that a recession is in our midst, and whether here or across the border, it would hurt Lululemon. And second is that while it has the potential to expand on a global scale, it will have a lot of competition. Finally, almost all of us have a pair of Lululemons, but could this just be a trend waiting to die?

## Bottom line

If I'm looking at upside, I'm looking at Hudson's Bay on this one. The stock is still so low, and there's a great opportunity to buy before some steady profits come in.

Lululemon is just too high for me to risk right now before a recession. Also, while it could be good over the next few years, I wouldn't say this is a long-term investment. It really depends on what kind of investment you're looking for.

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1. Investing

### Date

2025/07/20

### Date Created

2019/04/06

### Author

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