



Is Hudson's Bay Co. (TSX:HBC) a \$5 or \$10 Stock?

Description

If you follow the Canadian retail industry, you're likely very aware of the difficulties that **Hudson's Bay** (TSX:HBC) has faced in recent years. If you've owned its stock for more than a few years, you've lost a significant portion of your investment.

Can HBC get back to \$20?

I think the more appropriate question, after it announced a mixed bag of results in the fourth quarter, is whether HBC is a \$5 or \$10 stock? And \$20 is a discussion for well into the future.

Here are my thoughts on both share prices:

It's a \$5 stock

Although activist investors like Jonathan Litt believe that Hudson's Bay is a [real estate company](#) masquerading as a retail operation, the reality is that any turnaround involves HBC regaining its role as a profitable department store operator with the real estate taking a back seat to its Saks Fifth Avenue and Hudson's Bay stores.

How's it doing after a year under CEO Helena Foulkes?

Well, that depends on whether you're a glass half full or glass half empty kind of person.

If you're the cynical type, HBC's results, although better than analysts' estimates, are still very mediocre.

In Q4 2018, HBC on an IFRS basis lost \$837 million, 68% higher than in fiscal 2017, on a 1.2% decrease in annual revenue. In terms of same-store-sales, a critical financial metric in the retail industry, HBC's sales fell by 0.2% in 2018, on par with 2017.

If this is your yardstick, HBC appears to be failing despite Foulkes' best efforts.

"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," [wrote](#) Fool contributor Demetris Afxentiou April 5. "For that, the company is to be applauded, but what comes next?"

Eventually, Executive Chairman Richard Baker will run out of real estate chess pieces to keep the entire business afloat. With little sign of the company making consistent profits on an IFRS basis, it's hard to consider HBC anything but a \$5 stock.

\$10 is more like it

I [liked](#) the hiring of Helena Foulkes a year ago. I like it even more today. Since taking over, here are five things she's done to simplify and strengthen its business.

Saks Fifth Avenue, one of its biggest revenue generators, had two-year stacked same-store-sales growth of 7%. By comparison, **Nordstrom** had a two-year increase of just 2.5%.

The company's adjusted EBITDAR, which includes the company's rent expense, increased by 30% in 2018 to \$784 million. As a percentage of revenue, it increased by 200 basis points to 8.4%.

Foulkes decided to close all the Home Outfitters stores in February 2018. The move simplifies its business and reduces the cannibalization of its Hudson's Bay stores in the process.

After the end of the fourth quarter, the company eliminated \$762 million in debt from its balance sheet through the sale of the flagship Lord & Taylor, which reduced its debt as a percentage of its market cap from 216% to 163%.

At the end of the fourth quarter, HBC reduced its inventory by \$854 million or 25%. More important, its inventory is a much smaller percentage of overall sales,, an indication that the company is turning it faster.

CEO Foulkes had this to say about the quarter:

"We are a far stronger company today than a year ago, despite some of the top-line challenges this quarter," Foulkes stated in its Q4 2018 press release. "We've returned to positive operating cash flow, improved the bottom line across all of our businesses, increased profitability by 30 percent and strengthened our balance sheet."

Indeed it has.

Even its harshest critic, Jonathan Litt, would be impressed by the progress made in 2018.

The verdict on HBC stock

While it's not out of the muck just yet, HBC's stock today (around \$7.75 at writing) is a much better value than it was a year ago at this time (\$9.50 a share).

If you're a risk taker, this has \$10 written all over it.

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