3 Words That Could Spell Doom for a Stock

Description

Executives often try to paint as rosy a picture of a company as they can, but there are some words or phrases that sometimes stick out and that can raise alarm bells for investors. While no CEO wants to come out and say that the business they're running is in trouble, they also can't mislead investors either. There are a lot of different words that can be used to convey problems to investors, but the most subtle, troubling ones might be "pursuing strategic alternatives."

This is what **Hudson's Bay** (TSX:HBC) said it was doing with regards to its Lord and Taylor business earlier this month. Whether it means a sale of the business or some wholesale change, it's not a good sign. CEO Helena Foulkes tried to convince investors it was a prudent thing to do, saying that the move "is another example of how we are exploring options to position HBC for long-term success."

The problem is that it's been a lack of success that has brought HBC to where it is now. Selling assets is usually not a good sign for a company, especially when it's a key brand that's generated $1.4 billion in sales in 2018. However, that's not all, as HBC is also shutting down Home Outfitters and closing 20 Saks Off Fith stores in the U.S. as well.

Things have not gone well for HBC

The company has posted a net loss in three of its last five quarters, and investors haven't been impressed with HBC as the stock has fallen by more than 18% in the past year. Trading right around its book value, investors have not shown a willingness to pay any premium for the stock, and with it's struggling prospects, they are wise not to do so. It's not the first time that HBC has looked at selling assets; in 2017, it sold its Lord and Taylor building.

With the situation not being any better today, there's little reason to think that a big change to one of its key brands, including the possible sale, will do anything to make the company more investable today.

The exception to the rule

Making big changes or selling assets isn't always a bad move for a company. In 2017, **Cenovus Energy** (TSX:CVE)(NYSE:CVE) also sold some key assets as well, but that was in an effort to bring down the debt that resulted from a significant purchase. Shedding assets can make a company leaner and more focused, and Cenovus certainly has a much brighter future as a result of the changes.

With positive free cash flow in four consecutive quarters, the company could be in a great position to take advantage of what could be a stronger industry, especially if commodity prices remain strong. While Cenovus still has a lot of long-term debt on its books with $9 billion as of its most recent reporting period, it is still an improvement from the nearly $10 billion it had just a few quarters ago.

Minimizing debt is important for companies to remain flexible and to not have to worry about covenants and high interest payments. Cenovus still has a challenging path ahead of it, but its asset sales have put the company in a much better position today. I'm skeptical about if the same would be said about HBC if it proceeds to sell more of its assets.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2019/05/15
Author
djagielski