Hudson's Bay Co. Shares Could Double

Description

When investors think of general merchandise retailers in Canada, chances are one brand comes to mind — **Hudson's Bay Co**. (TSX: HBC).

Since getting its start way back in 1670, HBC has been a fixture in Canada's retail environment. The company slowly evolved over the years from buying furs from traders to the traditional department store model, with a few stops in other businesses in between, like diversifying into energy in the 1920s. HBC's energy division eventually became Canada's sixth-largest producer before being divested in 1979 to help pay for the acquisition of Zellers in 1978.

Lately, HBC has been expanding again, particularly with its acquisition of Saks Inc. for $2.9 billion. Saks is an iconic high-end fashion chain located primarily in the northeastern United States, centering around New York. Although the chain only has 39 stores, HBC was attracted to the strength of the brand, the average sale per customer, and the potential to expand the Saks brand into Canada.

The bullish thesis

Back in the early 1900s when retail as we know it was just beginning to take shape, the company built signature stores in downtown locations in most of Canada's largest cities. Over the years, it has held on to these pieces of real estate (with the exception of its property in Toronto's downtown, which it recently sold), watching them increase in value significantly, yet with no way to monetize them.

That looks to be changing.

Throughout late 2013 and 2014, HBC's management has been openly musing about spinning off its real estate into a real estate investment trust. It was discussed when it sold off its Toronto location on Queen Street for $650 million. It was further discussed when the company brought in a new CFO with just that type of experience with a rival retailer. At this point, the plan still looks good to go, it's just a matter of when. That's what we don't know.

According to a research note put out by M Partners, HBC's real estate alone could be worth $2.75 billion, or $15 per share. Shares closed on Thursday at $18.85, meaning an investor buying shares would get the retail company for just $3.85 per share. According to analysts, HBC is projected to earn nearly $0.90 per share in 2015. M Partners figures that the retail operations could fetch as much as $20 per share as a standalone operation.

Put that together, and you have shares trading at just a little over half of intrinsic value.

Another target?

One theory is that HBC will look to make another acquisition with the cash generated from spinning off its real estate assets. In a bizarre twist of fate, analysts have **Target Corporation**'s (NYSE: TGT) Canadian division as the potential target. Remember, Target acquired Zellers from HBC in 2011, using Zellers's real estate as a foothold into Canada.

And as has been widely reported, so far Target's Canadian experience has been a disaster. The stores are constantly out of merchandise. Canadian shoppers were peeved when they couldn't find the same brands in Canada as in the company's U.S. stores. Same-store sales have suffered, and don't look to be improving soon. Speculation is rampant that 2015 could be a make-or-break year. If things don't improve, the company could either abandon its Canadian operations or sell them.

Target has spent nearly $6 billion in Canada, and operations still aren't even close to showing a profit. Sure, it has other options than selling to Hudson's Bay, but a sale to HBC makes the most sense. It knows the majority of the locations, and the two companies could strike an agreement to continue using the Target name in Canada.

There are a lot of potential changes happening for Hudson's Bay as the iconic company moves into the 21st century. If things go right, there's a lot of upside at this price.

Looking for more iconic brands to invest in? Check out the free report below.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)

Category

1. Investing

Date
2025/07/03
Date Created
2014/10/24
Author
nelsonpsmith