Hudson’s Bay Co.: This Stock Could Rise 50% in 2015

Description

Yesterday, **Hudson’s Bay Co.** (TSX: HBC) released third-quarter earnings, which came in better than expected. Same-store sales were up 2.7%, a pretty solid number considering Canada’s crowded retail market. Sales at the company’s Saks subsidiary were especially impressive, including a 19% increase at Off Fifth, which caters to a less wealthy crowd than Saks itself. Additionally, web sales surged, increasing 73% compared to last year after a $28 million investment in the retailer’s various web sites.

Although quarterly net income came in at a slight loss, the company did reaffirm guidance that said 2014 year-end normalized earnings would come in between $3.18 and $3.40 per share. Like most retailers, HBC is gearing up for a massive fourth quarter.

Although Hudson’s Bay is a good retailer, its retail operations aren’t the reason you should be buying the stock. Instead, the value lies in the company’s massive real estate portfolio.

Real estate gets no love

Hudson’s Bay Co. is Canada’s oldest company, which means it’s been in retail for a long time. During the early 1900s, the company was opening up stores in every major Canadian center. Cities grew around these flagship stores, as usually happens.

Fast forward a century, and these flagship stores are worth a massive amount of money. In fact, they’re probably worth more than the retail operations themselves, which you’ll remember are forecast to earn more than $3.00 per share in adjusted earnings in 2014.

Here are a couple of examples of just how much the company’s real estate could be worth. Earlier in 2014, the company sold its iconic Queen Street location in Toronto to Cadillac Fairview (which owns the Eaton Centre right next door) for a whopping $650 million. Keep in mind that the company owns similar pieces of prime real estate in almost every major city in the country. Those buildings alone could be worth $2-4 billion.

It gets better. As part of the deal when it bought Saks Inc. in 2013, HBC acquired Saks’ world renowned headquarters on Fifth Avenue in New York City, widely regarded as one of the finest retail properties in the world. Recently, the company had its new crown jewel appraised as part of a mortgage deal to raise more than $1 billion. The verdict? It's worth US$3.7 billion.

Not bad, especially considering the entire Saks chain was purchased for $2.9 billion.

The company's plans for its real estate have been well documented, at least if you pay attention to management. It plans to spin out the assets into a real estate investment trust, likely in the first quarter of 2015.

What next?

Here's where Hudson's Bay gets really interesting. It's already raised more than $1 billion from just one building, and could potentially raise $1-2 billion more and still keep control of a publicly traded REIT. What will it use the cash for?

There are a multitude of possibilities, ranging from the mundane (buying back stock and repaying the debt taken on with the Saks acquisition) to the outlandishly fun but improbable plan for it to buy out **Target Corporation's** (NYSE: TGT) struggling Canadian division. But in reality, it doesn't really matter what the company plans to do with the cash, as long as it unlocks value by doing something with its real estate.

CEO Richard Baker believes the company's real estate portfolio is worth a combined $8.2 billion.Hudson's Bay has a market cap of $4.4 billion and $2.9 billion in debt. If Baker is right, investors who purchase shares now are getting the company's retail operations for free, plus nearly $1 billion thrown in. Sounds like a pretty good deal to me. When the real estate rollout happens, expect some serious upside.

CATEGORY

1. Investing

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1. NYSE:TGT (Target Corporation)

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