



## Hudson's Bay Company: This Stock Could Soar in 2015

### Description

Let me tell you a little about **Hudson's Bay Company's** (TSX:HBC) former CEO (and current Chairman), Richard Baker.

When it comes to real estate, the man knows his stuff. After acquiring the U.S. retailer Lord and Taylor in 2006, he turned his sights to Hudson's Bay, picking up the retailer for \$1.1 billion in 2008 from the widow of the man who took it private in 2006. Baker's company paid \$1.1 billion for Canada's oldest retailer.

In 2011, it became obvious that Baker made a shrewd purchase. He sold the leases of the company's Zellers stores to **Target Corporation** ([NYSE:TGT](#)) for \$1.8 billion, and in the process the company shed itself of a division that was struggling, especially as **Wal-Mart's** presence in Canada became stronger.

Then, in 2013, HBC monetized more of its real estate by selling off its flagship building in downtown Toronto for \$650 million. All told, Baker extracted nearly \$2.5 billion worth of value out of a company he paid \$1.1 billion for, essentially by selling spare parts.

It gets better.

Around the same time as the Toronto building was being sold, the company acquired Saks Inc., the iconic fashion retailer headquartered in New York City for \$2.9 billion, including assumed debt. Less than a year later, the company looked to borrow some money against Saks' flagship building in Manhattan, which led to an appraisal.

The building appraised for US\$3.7 billion.

Considering the value of the Saks business itself, the potential for the brand to expand into Canada (where it is already well known), and the other real estate Saks owned, I think it's pretty safe to assume Baker made yet another great acquisition.

## The next step

Baker is currently planning the next part of his plan, which is how to extract the value of all the real estate on the company's balance sheet.

According to a report by RBC Capital, the company's real estate could be worth as much as \$8.2 billion, which is just over \$45 per share. Baker himself isn't quite so bullish, but he did indicate he thinks the value of the company's property is \$7.3 billion, which works out to about \$40 per share. Both estimates are significantly higher than the current share price of \$24, and investors who buy now are also getting a retailer that's projected to earn \$3.30 per share in EBITDA for 2014, practically thrown in for free.

There's little mystery about what the company's next step is, since Baker has been pretty vocal about it. The company plans to package its real estate into a REIT and spin it off. Not only has Baker repeatedly hinted towards an event with media, but the company even went as far as hiring the CFO who was with **Empire Company** when it did the same thing in 2006.

The market has history with this type of event. In 2012, **Loblaw Companies** and in 2013 **Canadian Tire** pulled off similar transactions. Both stocks soared on the news, and both were up more than 40% less than a year later.

If the company raises a bunch of cash by spinning out the real estate, there are a few things it could do with it.

The company's debt has been a little high after acquiring Saks. Some of the money raised could go towards paying it down, or even buying up some of the company's shares.

But I think the prize management seeks is Target Canada. It's well known the U.S. parent is ready to pull the plug on its Canadian expansion, and it's likely the company can pick up the chain at a bargain price. It also knows the locations well since it used to operate Zellers stores in them, and Zellers did show it could compete with Wal-Mart. Plus, Wal-Mart is rumored to be the other interested party, and I can see how selling the business to Hudson's Bay is more appealing than selling to the guys from Arkansas.

2015 is shaping up to be a busy year for Hudson's Bay. I think the end result is a much higher share price, which is why I'm long this stock.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)
2. NYSE:WMT (Wal-Mart Stores Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:EMP.A (Empire Company Limited)
5. TSX:L (Loblaw Companies Limited)

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