



It's Time for George Weston Limited to Spin Off the Bakery

Description

Vancouver-based women's retailer Aritzia created a huge amount of [IPO buzz](#) in August by filing a preliminary prospectus to list its shares on the TSX sometime before the end of the year. It was a much-needed shot in the arm for an IPO market that's been moribund at best so far in 2016.

While baked goods aren't nearly as sexy as women's apparel, I believe the interest sparked by Aritzia's move makes 2017 the perfect time for **George Weston Limited** ([TSX:WN](#)) to give Weston Foods its independence—and, in the process, eliminate much of the discount discussion that takes place around its stock and that of **Loblaw Companies Limited** ([TSX:L](#)), its 45.8% holding.

Two years ago, *Globe and Mail* investment columnist David Milstead, a writer whose analysis I truly respect, took a look at the two stocks, evaluating which one investors should own. First, he turned to **CIBC** analyst Perry Caicco, who valued the bakery business at eight times EBITDA, or \$2.4 billion. Then, Milstead looked to **RBC** Dominion Securities analyst Irene Nattel for a little clarity on the matter. She suggested that while investors valued the Weston Foods division at \$4 per share, it was actually worth \$15, or about \$1.9 billion.

Two years have passed and Weston Foods's trailing 12-month EBITDA is \$286 million, \$15 million less than at the end of 2014. However, its trailing 12-month sales are \$2.24 billion, or 16% higher than at the end of 2014.

The common way to evaluate George Weston stock is to subtract the current market value of its 187.8 million shares in Loblaw and 23 million shares in **Choice Properties Real Estate Investment Trust** ([TSX:CHP.UN](#)); what's left over is the value of Weston Foods.

As of Tuesday's close, Loblaw and Choice Properties shares were worth \$13.47 billion and \$320 million, respectively. Given George Weston's market cap is \$14.66 billion, Weston Foods's current value is approximately \$870 million, or three times EBITDA and 0.39 times sales.

That's worse than in 2014, and while an argument can be made that Weston Foods's reliance on Loblaw reduces its value as an independent company, it's time for George Weston to deliver the goods.

In the U.S., **Flowers Foods, Inc.** ([NYSE:FLO](#)), a baker whose brands include Tastykake, a competitor to Hostess Foods, currently trades at 6.9 times EBITDA and 0.79 sales, despite having a 38% decline in its stock price over the past 52 weeks. Recently, Hostess Foods agreed to be spun into **Gores Holdings, Inc.** (NASDAQ:GRSH), a special-purpose acquisition corporation, for an enterprise value of \$2.3 billion, or 10.4 times its adjusted EBITDA; Flowers's enterprise value is nine times EBITDA.

In 2014 **Saputo Inc.** sold its bakery division (Vachon Foods) to **Grupo Bimbo** for \$120 million, or 0.9 times sales.

Any way you slice it, Weston Foods is worth more than \$870 million. I'd say it's closer to \$2 billion, and given the dearth of public companies in the consumer goods sector, George Weston shouldn't have any trouble extracting real value for its shareholders.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:L (Loblaw Companies Limited)
3. TSX:WN (George Weston Limited)

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