Everyday Investing the Ivanhoe Cambridge Way

Description

Ivanhoe Cambridge's 1.2 million square foot hybrid outlet mall, Tsawwassen Mills, recently opened in the Vancouver suburb of South Delta. Costing more than half a billion dollars to build, the real estate arm of the Caisse de dépôt et placement du Québec has made quite a retail splash on the West Coast.

With 16 anchor tenants and 180 retailers, 50% of which are "full-price" and 50% "outlet," Vancouver residents are in for quite the shopping extravaganza.

Following Peter Lynch's philosophy of investing in what you know—or what I call "everyday investing"—I would love to invest in Ivanhoe Cambridge because the mall will generate amazing revenues and profits for the company. Unfortunately, as part of the Caisse, it's not a publicly traded company.

So, how can investors benefit from this new development? They can invest in the retailers and restaurants that operate in the mall.

Go the Tsawwassen Mills store directory and you'll see there are 14 different categories of stores listed. You could build a pretty successful investment portfolio by investing in one company from each category. However, to save some time, I'll pick just two: Women's Clothing and Food & Drink. From each of the two categories, I'll pick one Canadian and one American stock. That's four stocks from just two categories.

The Tsawwassen Mills portfolio

Category	# of Canadian Public Companies	# of American Public Companies
Women's Clothing	1	7
Food & Drink	6	2

Source: Tsawwassenmills.com

First, let me just say that Ivanhoe Cambridge has **Lululemon** listed under the sports and fitness category and not women's clothing; otherwise, there would be two Canadian public companies listed under that category, not one.

Women's Clothing: Canada

As I stated above, Lululemon's not in this category, otherwise, it would've been my Canadian pick. Because it's not, I default to **Aritzia Inc.** (TSX:ATZ), the Vancouver-based women's specialty retailer that went public October 3, selling almost 29 million shares to eager investors. Priced at $16 per share, it hit $19 on the first day of trading but has since settled in the $17-18 range.

While I'm not a fan of the Aritzia concept, thousands of Canadian women are, and that's got the company planning to open 30 new stores by 2021—many of them in the U.S., where it's still tiny with just 18 stores, about one-tenth Lululemon's U.S. locations. Averaging 21% revenue growth over the past decade, it plans to hit $1.1 billion in revenue over the next five years with reasonably strong profitability.

Women's Clothing: U.S.

Operating two stores in the Tsawwassen Mills mall, **American Eagle Outfitters** (NYSE:AEO) is in the middle of a giant turnaround orchestrated by its CEO and one of its largest shareholders, Jay Schottenstein. Aerie, its sub-brand that sells lingerie to 15-25-year-old girls, is booming. Its second-quarter same-store sales grew 24%—600 basis points higher than the same quarter a year earlier. It's now had five consecutive quarters with +20% same-store-sales growth.

American Eagle lost its way for a while, like the rest of the tween retailers, but it's back with a vengeance. I see more good things ahead for the Philadelphia-based retailer.

Food & Drink: Canada

I'm a big fan of free cash flow, especially companies that are growing it, and so I have to go with **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) over **Cara Operations Ltd.** and other publicly traded restaurants operating in Ivanhoe Cambridge's new mall.

The operator of both Tim Hortons and Burger King has grown free cash flow over the last three years from US$154 million in 2012 to US$1.1 billion in 2015. This translates into higher dividends and greater share repurchases in addition to the debt repayment that needs to take place given debt is currently US$8.4 billion, or about 80% of its market cap.

Restaurant Brands plans to take the Tim Hortons brand worldwide, and, while that's going to mean more debt, the fact that it franchises most of the locations means it won't be biting off more than it can chew.

Food & Drink: U.S.

Yum! Brands, Inc. (NYSE:YUM) operates three global brands: KFC, Pizza Hut, and Taco Bell. A big part of its growth has been opening restaurants in China. To monetize some of that growth—most restaurants in China are company owned—it recently spun off **Yum China Holdings Inc.** (NYSE:YUMC) with existing shareholders, getting one share of the new company for every share held in the parent.

Yum China has over 7,300 restaurants and generates more than US$8 billion annually with plans to open thousands more. Yum Brands gets a 3% royalty on those sales, which it will use to grow the number of franchisees it has around the world operating an "asset light" business, focusing more on marketing and quality control and less on restaurant operations.

Should Yum China meet its growth plans, Yum Brands will be handsomely rewarded. Income investors might also be interested in YUM stock—it's got a 3.4% dividend yield.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)
2. NYSE:QSR (Restaurant Brands International Inc.)
3. TSX:QSR (Restaurant Brands International Inc.)

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Author

washworth