Hudson’s Bay Co. Is up 38%: What Should You Do?

Description

It has been a great week for investors of **Hudson’s Bay Co.** (TSX:HBC) with the stock rising by close to 38%. But any time a stock experiences a pop of this magnitude, investors are left wondering whether they should sell their positions, accumulate more, or simply hold and see where things go.

It helps to understand why this happened.

Hudson’s Bay is a retailer. At least, that’s the case on the surface. It’s attempting to survive the onslaught that retailers have been dealing with from much larger e-commerce platforms looking to each their lunch.

However, underneath the retailer façade is a much bigger prize: real estate. Hudson’s Bay owns a vast network of real estate for its stores to operate. These stores are likely far more valuable to the business than the actual retail operations.

Take, for example, Saks, Inc. In 2013, Hudson’s Bay paid US$2.9 billion for the Saks Fifth Avenue flagship store along with the OFF 5th brand. Although many thought this was an egregious waste of money, about 18 months later, Hudson’s Bay took out a mortgage against the flagship store in New York City. That mortgage was for US$3.7 billion. Without even taking the OFF 5th brand into consideration, Hudson’s Bay had appreciation of US$800 million on its value.

So, while Hudson’s Bay’s history is routed in the fur trade and retail, it is actually one giant real estate company.

And that’s why its stock spiked. Land & Buildings Investment Management, a Connecticut-based activist investor that owns 4.3% of the company, argued that Hudson’s Bay should try to extract more value from its real estate. According to Land & Buildings, the value of the real estate is approximately $35 per share, which is obviously significantly greater than shares are today.

If Hudson's Bay were to listen to Land & Buildings, it would begin converting its retail locations for other uses. Whether that is residential, commercial, or some other opportunity, Land & Buildings wants tosee Hudson's Bay get more aggressive at earning income off its real estate.

How should investors feel about this?

Hudson's Bay has already launched two joint ventures to help unlock that value. One is with **Simon Property Group Inc.** and the other is **RioCan Real Estate Investment Trust.** These are likely two of the top partners in the United States and Canada, respectively, to partner with for retail real estate.

But could Hudson's Bay do more?

My feeling on that is pretty simple. If Hudson's Bay is really going to completely pivot away from retail, that's a fine idea, though there's a lot of capital investment required to achieve that. However, if it's going to remain an ambiguous retail/real estate play, it had better hope it can get its retail business generating growing revenues again. It's hard to sell real estate for strong profits when the tenant is already weak.

For investors who have been holding, it's probably a good idea to continue holding. However, after appreciating by 38%, I wouldn't be looking to buy. Wait for things to cool off and then pick up shares if you think the company will be able to unlock value in its real estate.

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