Could Hudson’s Bay Co. Stock Triple if it Turns to Real Estate?

Description

On September 13, **Hudson’s Bay Co.** (TSX:HBC) stock fell 1.65%. The stock is down 4.9% in 2017 and 25% year over year. The company has been embroiled in an internal battle in 2017 as an activist shareholder took it upon themselves to launch a campaign threatening to dislodge board members if there was not a massive change of direction. This change of direction involves HBC making a strategic switch to monetize its real estate holdings rather than attempt to rebound from its weak retail numbers.

The company released its second-quarter results on September 5. It reported a loss of $201 million — larger than the $142 million loss it reported in Q2 2016. Sales saw a marginal increase to $3.29 billion from $3.25 billion.

Like other retail companies that have felt the enormous pressure caused in part by the rise of e-commerce giants like **Amazon.com, Inc.**, HBC has resolved to slash operating costs, cut staff, and reduce brick-and-mortar locations while expanding its online footprint. The leadership at HBC still believes that the retail business can be turned around, while simultaneously looking to make the most out of the prime real estate the company owns.

Activist investor Jonathan Litt, founder of investment firm Land and Buildings, owns close to a 5% stake in HBC. When he penned his initial volley aimed at HBC leadership, Litt stated, “the company’s real estate is valued at $35 (per share) by third parties.”

The largest asset in the HBC portfolio is the Saks Fifth Avenue flagship store in New York City, appraised at $3.7 billion in 2014. Litt’s firm surmised that it could be worth north of $5 billion after redevelopment. HBC also owns the flagship Lord and Taylor store in Manhattan, appraised in 2016 at $655 million. HBC also operates 10 department store locations in a joint venture with **RioCan Real Estate Investment Trust**.

The company unveiled a presentation in spring of 2017 regarding its real estate assets, putting the total worth at $11 billion. More conservative estimations have put HBC per-share value around $20 if the company moves forward with the transformation.

Should you bet on HBC making the transformation?

In August, HBC announced that the head of its international business, Don Watros, would leave the company at the end of September. Watros joins former chief financial officer Paul Beesley and former head of real estate Brian Pall among executives who have left the company in recent months. Poor results have undoubtedly led to changes in strategy and, thus, leadership, but I think investors would be safe in the assumption that HBC is ready to heed Mr. Litt's advice.

As the share price continues to hover around the $10 mark, this could prove an attractive entry point for onlookers. A report in August indicated the HBC team has conducted a review of operations by a third party. The biggest obstacle now appears to be the cooling real estate market, which could prompt a delay from the company or a tempered move into the industry that would satisfy no one.

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