Hudson's Bay Co. Cashes In on its Real Estate: Time to Buy?

Description

You can bet that investors at Land and Buildings, a Connecticut-based hedge fund, are happy. After taking a 4.3% stake in **Hudson's Bay Co.** (TSX:HBC) back in June, the hedge fund pushed the retailer to unlock value from its real estate.

Hudson's Bay announced yesterday that it has agreed to sell the Lord & Taylor building between 38th and 39th streets on 5th avenue in Manhattan to WeWork Cos. and Rhone Capital LLC for US$850 million. Rhone also bought US$500 million of convertible shares in Hudson's Bay.

The immediate reaction to the deal was big with shares rising by 8.7% to $12.77 before ending the day at $11.98 — a little under 2% higher than Monday's close. But should you buy shares?

In my opinion, this was a really smart move for Hudson's Bay for a multitude of reasons, but one of the primary ones is simply return on investment.

NRDC Equity Partners originally bought Lord & Taylor back in 2006, paying US$1.2 billion. NRDC Equity then went on to buy Hudson's Bay and roll all its retail into one operation. After using US$427 million to pay down Lord & Taylor's debt, Hudson's Bay and Lord & Taylor became one.

This is significant because Hudson's Bay earned back half of what it ultimately invested in Lord & Taylor by selling a single real estate asset. About one year ago, this location was valued at US$650 million, so the company is obviously getting a great return on investment.

And lest we forget, Lord & Taylor will still operate in the location — just on a smaller scale. And it still has dozens of other locations around the country, which have both value as real estate, but also operate as retail locations.

All the cash that Hudson's Bay is now receiving puts it in a very good position over the long term. According to data compiled by *Bloomberg,* Hudson's Bay has US$1.5 billion in loans. Hudson's Bay intends to cut US$1 billion from its total debt and keep US$385 million in cash.

One concern that some investors might have is that Hudson's Bay will take an earnings hit since it's losing the flagship store of one of its main brands. Management isn't concerned, though. According to them, the Lord & Taylor store was underperforming, so launching a smaller store won't really hurt it.

The final detail of the deal is a new initiative between Hudson's Bay and WeWork. Rather than have retail and commercial locations be separate, the two firms are working on making them one. The logic is smart: it will make employees that work in WeWork walk through the retail location, see all the goods, and perhaps purchase them. It brings the customers to the store. They'll be testing that out with WeWork leasing space in a few of Hudson's Bay's Canadian locations.

Does this whole deal make Hudson's Bay an immediate buy? It's a step in the right direction, for sure. Land and Buildings believes that the real estate alone is worth $35 a share. If that's true and Hudson's Bay commits to selling some of its major holdings, you could see a strong return on investment. Even without that, though, Hudson's Bay is in a strong financial position thanks to this deal. Taking a position may make sense.

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