Investors Are Missing the True Asset of Hudson's Bay Co.

Description

When most investors look at **Hudson's Bay Co.** (TSX:HBC), they see a retail company that owns struggling brands, including its namesake, Lord & Taylor, and Saks. But I see something entirely different. The true asset isn't the things it sells, but *where* it sells them. Real estate is where investors make their money with HBC.

The first clear sign of this was when the company sold the Lord & Taylor building on 5th Avenue in Manhattan to WeWork Cos. and Rhone Capital LCC for US$850 million. Rhone also bought convertible shares in Hudson's Bay for US$500 million.

This deal is lucrative for Hudson's Bay because it only paid US$1.2 billion for the entire Lord & Taylor brand and real estate assets, but got a great deal for just one building. Even better, this asset was valued at US$650 million a year ago, so Hudson's Bay made off with a considerable amount of money.

WeWork and Hudson's Bay have also partnered on a retail/commercial initiative in which the two are combined into one building. Employees working at WeWork locations will walk through the retail Lord & Taylor. WeWork gets commercial real estate; Lord & Taylor gets customers.

While this was the clearest sign that real estate was the real opportunity, there have been signs that this was the ultimate play.

Back in June, Land and Buildings, a Connecticut-based hedge fund, purchased a 4.3% stake in the company. It then launched a campaign to educate investors that the real estate HBC owns would be valued at $35 per share if it weren't treated like a retail stock. If management can find a way to extract this value, investors will be handsomely rewarded.

The Lord & Taylor HQ sale is just one step toward achieving this. Another step actually started in 2013, when Hudson's Bay bought Saks, Inc. for US$2.9 billion, including the Saks Fifth Avenue flagship store. It wasn't obvious for 18 months, but then HBC took out a mortgage against the Fifth Avenue store for US$3.7 billion — not a bad return on investment.

The other move, which fellow Fool writer, Nelson Smith, suggested, is for HBC to spin off the entire real estate division into its own company. As Nelson argues, this move looks likely because HBC hired **Empire Company's** CFO, who helped repackaged its stores as a REIT in 2006.

In the event that this spin-off happens, we'd be looking at a deal that results in billions of dollars for HBC. With real estate estimated at $7-$8 billion, this would be an incredible opportunity for investors.

Here's where I stand. Richard Baker, Governor, Executive Chairman and Interim CEO of Hudson's Bay Company, is exceptional at buying real estate when it's priced low and then turning around and selling it high. If real estate was the ultimate play for all these acquisitions, then you can expect the company will act on it soon. Investors should buy shares before that happens because the returns could be significant.

But there are other options on the market that The Motley Fool has its eyes on.

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