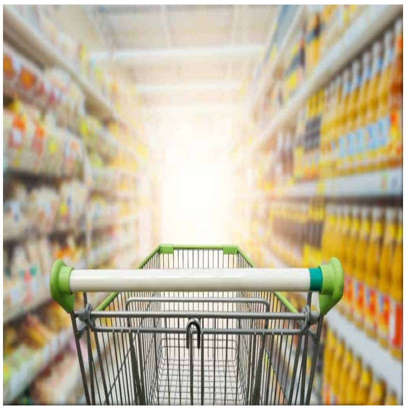

You'll Want to Buy This Stock Before Investors Realize it's Too Late

Description

Since **George Weston** (TSX:WN) and **Loblaw** (TSX:L) announced September 4, 2018, that Loblaw would spin out its 61.6% interest in **Choice Properties** (TSX:CHP.UN) to Weston, the grocer's controlling shareholder, Weston's stock is down 6.6%, while Loblaw's is flat.

Clearly, investors liked the idea of Loblaw focusing on its grocery and financial services businesses. However, they seem ambivalent about Weston picking up an excellent real estate investment.

Without getting into a discussion about the reasons why owning a holding company isn't a good idea, I'd like to discuss why holding George Weston stock is.

A holding company ought to have more holdings

Let's face it: George Weston had become a boring holding company before it acquired Loblaw's stake in Choice. Up until the September announcement, it owned 50.4% of Loblaw, 3.8% of Choice, and 100% of Weston Foods. That's not exactly **Berkshire Hathaway**.

Investors don't have to buy stocks. They choose to. Why would anyone buy George Weston stock given the slim pickings offered? After all, you could buy Loblaw's stock if you wanted to own a grocery-store chain and Choice if you wanted to own a retail REIT with strong grocery-store anchors.

That left you with a faltering bakery with just $2.1 billion in annual revenue and $73 million in operating income to get you in the door. To make matters worse, Loblaw accounts for approximately 35% of Weston Foods's revenue. Can it even stand on its own two feet?

In 2016, I'd suggested that George Weston spin off Weston Foods, because the bakery was worth more than investors were valuing it. I don't believe that's changed much. However, what has changed is that the bakery has undergone a multi-year transformation that's expected to be completed by the end of fiscal 2019.

Included in the bakery's transformation has been a significant reduction in the number of products it provides customers — a move that should make it more efficient, not to mention more profitable.

Now that George Weston is also in retail real estate, I'm not nearly as concerned about it owning a bakery.

What I do hope is that the Weston family considers selling some of their private investments to George Weston. That move, much like Choice, would attract greater interest in its stock. Should it happen, I'll be sure to give WN stock the green light.

Choice Properties has nice growth potential

Last February, I outlined the reasons I liked the REIT's $3.9 billion acquisition of Canadian REIT , which created the largest REIT in Canada.

Atop my reasons for liking the deal, it gave the Weston family (Canada's third wealthiest) a platform for growing its real estate holdings beyond retail into industrial, office, and more. Furthermore, it got Canadian REIT CEO Stephen Johnson to take the reins of the combined entity, providing the Westons with experienced management — the prerequisite for any successful holding company.

Here in Halifax, where I live, I'm reminded daily of Choice's potential.

On Young Street, in the city's North End, sit two shopping malls: one with an Atlantic Superstore (Loblaw) and another with **Dollarama**, Burger King, and several other retailers. The two properties possess significant development potential. Choice now owns both of them.

Anyone who lives in Halifax knows how valuable vacant land is on the peninsula. And it's only going to get more valuable with each passing year.

Owning 65.4% of Choice Properties, George Weston stock has much better upside potential than it did before the spinoff.

Investors just haven't realized it yet.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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2. TSX:L (Loblaw Companies Limited)
3. TSX:WN (George Weston Limited)

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