



Tim Horton's Shares Get a Jolt

Description

We could have on our hands the latest installment of the ongoing saga between U.S. activist hedge funds and Canadian corporations. According to newswire reports, Canadian institution **Tim Horton's** (TSX:THI,NYSE:THI) has drawn the attention of Highfields Capital, a Boston based firm.

Shares of Tim Horton's are trading up 3.6% on the news.

Highfields reportedly wants Tim Horton's to borrow \$3.4 billion to buyback a significant portion of its stock, as well as scaling back on its U.S. expansion. It's not clear if Highfields owns a competing donut and coffee chain. In addition, a spin-off of the company's real estate also seems to be on the platter of demands.

Highfields' stake in Tim Horton's now stands at 4%, up from 1.56%. If it crosses the 5% barrier a filing would have to be made that could shed more light on the whole situation.

A bit of math

If Tim's were to go out and borrow \$3.4 billion at an interest rate of, say, 5%, it would add an interest charge of \$170 million to the company's income statement. Using 2012 results, total interest expense at the company would have been \$200 million or so.

\$3.4 billion would buy back about 40% of THI's stock, leaving it with 93 million shares outstanding.

If we combine the added interest with this reduced share count, 2012 earnings per share would have come out at about \$3.10. THI has historically traded at a multiple of about 20 times trailing earnings, which means the stock could move into the \$60 range if this story is a) true and b) accurate.

THI shares were trading at about \$54.50 before this news hit. A move to \$60 would provide a 10% bump – nice, but hardly a career making gain.

Foolish Takeaway

Numbers aside, the gist of this report is that Highfields appears interested in Tim Horton's focusing less on growth into unproven territories and more on its Canadian operations, milking the company's status as one of this country's most recognizable businesses. There may be more value to this story for shareholders if management's focus were to shift to optimizing the cash generating capabilities of the Canadian operations rather than trying to grow by expansion. Stay tuned!

While Tim Horton's shares are up by about 60% over the past 5 years, shares in Starbucks have nearly quadrupled. Starbucks is just one of the three dominant U.S. companies profiled in our special **FREE** report "**3 U.S. Stocks Every Canadian Should Own**". Find out the other two names by simply [clicking here](#) to receive this report – **FREE!**

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. David Gardner owns shares in Starbucks. Tom Gardner owns shares in Starbucks.

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Date

2025/09/01

Date Created

2013/05/01

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tmfohcanada

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