Evaluating Tim Hortons' Buyback Track Record

Description

As Foolish investors, we love companies that regularly reward investors by buying back their own stock. Share buybacks are a tax-efficient way to return cash to shareholders while increasing our ownership stake in great businesses.

And there's no Canadian company that does that better than **Tim Hortons** (TSX: THI, NYSE:THI). Since going public in 2006, the company has bought back more than 20% of outstanding shares.

That means if you've owned 100 shares since the IPO, you now own the equivalent of 125 shares. But this development comes with a caveat. Corporate buybacks are notoriously ill-timed.

They're often implemented when firms are flush with cash, profits are up, and stocks are expensive. As a consequence, the policies often subsidize short-term speculators at the expense of loyal shareholders. So I decided to investigate Tim Hortons' buyback track record to see how effective this policy has been. Here's what I found.

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Source: Capital IQ

At least over this short sample, the Tim Hortons buyback program has rewarded shareholders handsomely. Management ramped up the initiative in early 2011, when shares were trading in the $45 range. As the share price appreciated, management slowly backed off.

Between the fourth quarter of 2010 and today, Tim's has paid an average of $49 per share through its buyback program. Given that as of Monday's close shares are trading just shy of $60, this is something investors should be happy with.

If we were to look further back, we'd find that Tim Hortons has a pretty good buyback track record as well:

- The company sported a moderate buyback during 2007, when shares traded around $35. So-so.

- Management ramped up the buyback during the dark days of 2008, when the stock was cheap at around $25. Very smart.
- Timmies cut its buyback program in 2009. Meh.
- Finally, the company ramped up its buyback program again in 2010 when shares traded between $30 to $40. Nice move.

Management's timing hasn't been perfect. But overall the Tim's buyback program has created a lot of value for shareholders.

So how should investors feel about the company's August announcement to buy back an additional $900 million in stock? This really comes down to how well you think management can invest your capital. Growth for the sake of growth is a bad policy. As shareholders, we only want management to expand their business if they can earn a sufficient return to justify the risk.

Otherwise, we'd rather put the cash in our own pocket.

In the case of Tim Hortons, I think there's a fair case to make that buying back stock is better than expansion. With 4,600 locations, the Canadian market is looking saturated. Exporting the Tim's brand south of the border has proven difficult. Conservative investors may be concerned that this buyback is being financed by debt. But given the stable nature of the industry, the company should be able to easily handle the extra liability on its balance sheet.

Foolish bottom line
It should be noted that when I was researching candidates for this story, I found surprisingly few

Canadian companies that consistently reduce their outstanding share count. Take a look for yourself, but most companies consistently dilute investor stakes with new equity issues. When firms do announce a share buyback, it's usually only to cover up stock grants from executive compensation.

Tim Hortons was on a small list of companies that has actually reduced its outstanding share count. That's a strong indication of a shareholder-friendly management team.

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Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.

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