Did Tim Hortons Do Enough to Satisfy Investors?

Description

“There is little to no growth in this industry.” With those words, **Tim Hortons Inc** (TSX:THI)(NYSE:THI) CEO Marc Caira was able to sum up the company’s biggest challenge. Canadian sales growth for the 2013 fourth quarter came in at 4.7%, but only 1.6% on a same-store basis.

In the United States, where the opportunity is much greater, same-store sales growth came in at 9.5% for the quarter. But due to store closures, the company actually posted a net loss south of the border. As a result, Tim Hortons earned only 69 cents per share for the quarter, falling short of both the company’s and analysts’ expectations.

It’s a familiar story for Tim Hortons and its investors. The Canadian market is nearly saturated with Tim Hortons locations, providing little room for growth. The American market, where Tim Hortons does not have home field advantage, has been a constant struggle. Competition continues to be fierce, especially from American giants **McDonald’s** (NYSE:MCD) and **Starbucks** (Nasdaq:SBUX). Such is the problem of being at the top of a mature market: growth is hard to come by, and all one can do is wait for the competition to fight for a larger share.

Nevertheless, there was some good news too. The biggest headline was a dividend increase of 23%, which now stands at $0.32 per common share. This now works out to a yield of just over 2%. Investors may be counting on further dividend increases; the payout ratio is still only about 40%, based on Tim Hortons’ expected earnings per share for 2014. For a company with such smooth earnings, and few growth opportunities, increasing dividends may be its best use of capital.

But perhaps the most significant event was the launch of a new loyalty program. Tim Hortons is partnering with **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) to introduce a Visa card by May, and will also be introducing a loyalty card for those who don’t want a credit card soon thereafter. Some loyalty programs have made a tremendous difference in the sales and marketing efforts of Canadian retailers; if Tim Hortons executes well, this program could provide the growth that is sorely needed.

Foolish bottom line

While the lack of growth is sure to be disappointing, it is something that investors are used to. Meanwhile the dividend increase and loyalty card are evidence that Tim Hortons' management is determined to make the most out of the company's existing footprint. It's not surprising that the shares have reacted well. For investors that are willing to pay up for steady earnings, Tim Hortons remains a compelling option.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:SBUX (Starbucks Corporation)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:MCD (McDonald's Corporation)
4. TSX:CM (Canadian Imperial Bank of Commerce)

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