Why Tim Hortons Shares Might Keep Rallying

Description

While Fools should generally take the opinion of Wall Street with a grain of salt, it's not a bad idea to take a closer look at particularly stock-shaking upgrades and downgrades — just in case their reasoning behind the call makes sense.

What: Shares of **Tim Hortons** (TSX: THI) climbed about 2% this morning after KeyBanc upgraded the Canadian coffee giant from Hold to Buy.

So what: Along with the upgrade, analyst Christopher O'Cull planted a price target of U.S. $75 on the stock, representing about 33% worth of upside to yesterday's close. So while contrarians might be a bit turned off by the stock's strength over the past month, O'Cull's call suggests growing sentiment on Wall Street that Tim Hortons' recent improvement is sustainable.

Now what: According to KeyBanc, Tim Hortons' risk/reward tradeoff is pretty attractive at this point. "Our upgrade is based on our view that Tim Hortons' new CEO Marc Caira has increased the sense of urgency for improving SRS at the Canadian restaurants, which represent about 90% of system sales and 99% of profits, and will elevate the quality of brand management of an already healthy restaurant chain that has significant resources for implementing improvements," said O'Cull. "The Company recently unveiled a five-year plan that focused on growing sales at existing restaurants through food innovation, better menu management, new value strategies, improved service and using technology to enhance the guest experience."

More important, with the stock still off about 10% from its 52-week highs and trading at a reasonable forward P/E of 15, there's more room to buy into that bullishness.

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bpacampara