3 Reasons to Buy Tim Horton's

Description

The critics just don't understand **Tim Horton's** (TSX: THI)(NYSE: THI).

They have a litany of reasons to bash the stock: the competition, the market saturation, the price multiple. Yet the company continues to prove the critics wrong and the stock marches higher. Ignore the naysayers. Here are three reasons to consider adding Tim Horton's to your portfolio.

1. The company has a long growth runway

At Tim Horton's annual investor conference in February, chief executive Marc Caira showed that the company still has a long expansion runway ahead of it.

Building new stores internationally will be a critical part of this expansion. As part of the ongoing effort to solidify its position south of the border, over 300 locations have been planned for the U.S. between now and 2018. St. Louis has been targeted as the biggest new market for Tim Horton's, with 40 new locations planned for that area. An additional 220 stores are also planned for the Middle East.

Caira's biggest challenge is to figure out how similar rewards can be reached in the more saturated Canadian market. The company is looking to open 500 new Tim Horton's locations across Canada over the next five years. This will consist primarily of "Tims Express" locations aimed at coffee drinkers in urban areas — with the added option of being able to place a pick-up order via smartphone.

2. Tim Horton's is protecting its home turf

The chain has been increasingly challenged by competition in the coffee category from **McDonald's** and **Starbucks**. In spite of this, almost three-quarters of the caffeinated beverages sold in Canada at quick-serve restaurants still come from Tim Horton's, compared to 9% from McDonald's and 4% from Starbucks.

However, Tim's is not sitting on its laurels. The company is updating its menu in the face of increasing competition. It had a nationwide roll-out of Dark Roast Coffee to provide an alternative to its primary product, and Frozen Green Tea was announced as a menu addition for spring 2014. The company is also updating its image through the ongoing renovation of restaurant interiors to include flat-screen televisions and armchairs.

Tim Horton's is also finding ways to squeeze more sales out of every store. Today, about 60% of orders consist of just one item. The company plans to revamp its restaurant menu boards in order to place a growing emphasis on value meal combos and make the range of available food items more obvious. The company is aiming to get 15% to 20% of customers to opt for three items instead of two.

3. The stock has a great dividend

Don't let that measly 2.02% dividend yield fool you. Tim Horton's has a great track record of rewarding shareholders. Over the past five years the company has increased its distribution at a 25% compounded annual clip. And today, Tim's is paying out about 35% to 40% of profits. That still provides plenty of room for dividend hikes in the future, which could be a catalyst for the stock.

The company's share buyback program is also a big plus. Since 2009, the company has repurchased $2 billion in outstanding shares. And last quarter the company pledged to repurchase up to an additional $440 million in common shares from the public market for cancellation.

Foolish bottom line

Tim Horton's is a wonderful business. Simply combine beans and hot water then sell the product for a huge mark-up. While the critics continue to dwell on risks, the recipe has proven enormously profitable for shareholders.

CATEGORY

1. Investing

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