



4 Reasons to Be Bearish on Tim Hortons

Description

If I was asked what Canada's most iconic brand is, my first guess would probably be **Tim Hortons** (TSX: THI)(NYSE: THI). Every Canadian has a story that involves Timmy's. Millions of people regularly go to one of the company's 4,000 locations for a cup of coffee, doughnut, or a sandwich. The drive-thru is consistently packed, especially in the morning. Since the chain first opened in Hamilton in 1964, growth has proceeded without any major roadblocks.

Tim Hortons is a true Canadian success story.

Even though I recognize the strength of the company's brand and its storied history, I can't help but to be bearish on Tim Hortons as a long-term investment. I've identified four reasons why the company isn't about to enter my portfolio anytime soon.

1. Competition

For years, the Canadian coffee market was owned by Tim Hortons. It had very little in the way of competition.

Then, foreign competitors figured out that Canada would be a good place to gain market share.

McDonald's ([NYSE: MCD](#)) has been extremely aggressive in rolling out its McCafe premium coffee, even going as far as offering free samples for a week at a time. McDonald's coffee is a good offering, and it's priced comparatively to a cup from Tim Hortons.

Starbucks is also expanding aggressively into Canada. The company currently has more than 1,000 locations across the country, recently signing a deal with **Target** to put a Starbucks in each of its Canadian stores. Even **Second Cup** (TSX: SCU) is growing its presence across Canada, boosting its store count to more than 360 locations.

If you add all this together, there are thousands of locations across the country where Canadians can stop in for a cup of quality coffee that aren't a Tim Hortons.

2. U.S. expansion

With more than 3,500 locations in Canada, Tim Hortons is well established here. It does plan to open 500 more restaurants in Canada by 2018, but the company's presence in Canada is so well entrenched that these new restaurants are destined to not perform as well as current locations.

The main growth area for Tim Hortons is the United States, but that's a tough market. The U.S. coffee market is dominated by Starbucks, and **Dunkin Donuts** is the dominant player in the doughnut space. Tim Hortons doesn't even enjoy the same brand recognition with American customers. It is a tough battle to win over American stomachs.

Currently, the company's U.S. operations are barely profitable, even though 20% of its stores are located south of the border.

3. Complicated menu

Even though Tim Hortons has expanded its menu significantly over the last decade, coffee still makes up 40% of all sales, and 60% of customers only buy one item. Considering the array of choices on the menu, these numbers are discouraging.

There comes a point where adding additional menu items stops being worthwhile, and that time is now. Having too many options is slowing down service. My wait time for hot food is consistently longer at Tim Hortons than at competitors' stores. Cutting some non-performing items from the menu is an easy way to address this problem.

4. Foreign worker shutdown

Last week, Ottawa announced it was suspending the Temporary Foreign Worker Program, citing abuses to the policy. The program was used extensively by Tim Horton franchisees as a way to fill labour shortages. As any business owner knows, it's tough to run a business if you don't have staff. Finding staff purely from Canadian sources will be a challenge for operators going forward.

This could lead to staff shortages, especially for franchisees who simply can't afford to pay higher wages. And ultimately, staff shortages could lead to slower sales.

Foolish bottom line

In addition to the reasons outlined above, Tim Hortons is trading at a fairly high 20 times earnings, and saw soft sales growth over the last year. I don't believe the company's expansion plan will significantly move the needle, and competition is only going to intensify. Investors should avoid Tim Hortons for the time being.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MCD (McDonald's Corporation)

Category

1. Investing

Date

2025/09/29

Date Created

2014/05/01

Author

nelsonpsmith

default watermark

default watermark