



3 Reasons Tim Hortons Is a Buy

Description

On Wednesday **Tim Hortons** (TSX: THI)(NYSE: THI) posted earnings results for the first quarter of 2014. Unfortunately, the company fell just short of expectations, with earnings per share of 66 cents. Analysts were expecting EPS of 68 cents. The miss was largely attributable to the cold weather.

The latest earnings release also served as another reminder of Tim Hortons' growth challenges. In Canada, same store sales grew by 1.6%, and that number was only 1.9% in the United States. Shares fell following the news, but there were also some promising signs.

On that note, below are the top three reasons to buy shares of Tim Hortons.

1. Menu changes

Everyone knows that Tim Hortons dominates the coffee market, but if the company really wants to grow same-store sales, especially in Canada, it will have to sell more food too. And in the first quarter, Tims introduced a Crispy Chicken Sandwich to complement the Panini line. The sandwich has not only gotten a great response from customers, but also compares favourably with competitors on a nutritional value basis.

Other new menu items are Warm Kettle Chips, frozen green tea, and a new kind of hash brown. Both are being offered as sides in combos, helping to encourage customers to order more food per visit. And it's not just menu additions that Tims is focusing on; the company is 75% of the way through its delisting efforts, which will simplify the menu and make for speedier lineups. For example, Canadian stores will no longer be selling ice cream.

2. The U.S. strategy

Again, it is no secret that the United States has always been a struggle for Tim Hortons, where the company does not have the brand power it has in Canada. But Tims is starting to gain at least some traction in the country, with operating income increasing to \$4.4 million in the first quarter, up from \$900,000 year over year. The company is also scoring much better in areas like convenience and customer awareness, both good signs.

Interestingly, CEO Mark Caira is focusing more on developing menu items specifically for American consumers, such as the Meatball Panini and Spinach and Egg White Pie. As he put it, "this is something that's a little different because in the past we may have tried to perhaps use Canadian products a bit too often." Time will tell how successful this strategy shift is, but so far so good.

3. An embrace of technology

Technology innovation is absolutely imperative in the industry today, and Tim Hortons is determined not to be left behind. The biggest initiative is the Double-Double Card, a co-branded Visa credit card with **CIBC**, which will launch this summer. Tims will also soon allow customers to order and pay for goods straight from their smartphones. And finally, the company is in the process of upgrading its point of sale system, which will make ordering more efficient.

Will this all be enough?

There is still no denying that Tim Hortons is operating in a much more competitive industry than it was a few years ago. Companies like **McDonald's** ([NYSE: MCD](#)) and **Starbucks** ([Nasdaq: SBUX](#)) are competing fiercely in the coffee market, currently Tims' home turf. But with the initiatives outlined above, at least Tim Hortons is showing it can play on offence too.

CATEGORY

1. Investing

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1. NASDAQ:SBUX (Starbucks Corporation)
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