The Pros and Cons of Investing in Tim Hortons Inc

Description

Tim Hortons (TSX: THI)(NYSE: THI) is a name so familiar in Canada that *Canadian Business* named it the number one Canadian brand for the second year in a row. Tims dominates the country's quick service restaurant (QSR) industry, serving Canada's most popular coffee. But does that make Tim Hortons a worthwhile investment?

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Below we take a look at two reasons to buy shares of Tim Hortons, and two reasons why the company might not be a good fit for your portfolio.

Why to buy

1. Stability

Thanks to its strong brand, Tim Hortons is able to earn fairly reliable income, something not often found in Canadian companies. To be more specific, Tims customers aren't going to give up coffee even if the economy is doing poorly. And no matter what large competitors do, most customers will stay loyal.

To prove this point, in the past decade, same-store sales have grown in every single year, in both Canada and the United States. Not even an economic crisis or growing competition could turn Tim Hortons' customers away.

2. Dividend increases

Importantly, Tim Hortons' stable earnings allow the company to pay out a very reliable dividend. Better yet, that dividend has grown substantially since the company became public in 2006. At that time, the dividend stood at a measly $0.07 per share, a number that has now risen to $0.32 in eight years.

And there is plenty of room to grow the dividend further; Tims expects to achieve earnings per share this year at or above its guidance of $3.17 to $3.27. This is of course well above the annual dividend of $1.28 per share.

As a bonus, Tims has also been buying back shares. Back in 2011, the average shares outstanding totaled 163 million. In the second quarter of this year, that number had shrunk to 134 million.

Why to stay away

1. Limited growth

To be fair to Tims, the company is doing many great things in an effort to grow. It is implementing new technology to improve speed of service and customer experience – most notable is the introduction of a Tim Hortons Visa card. Furthermore, new menu items are gaining traction, and the United States stores are also showing much promise.

That being said, this is a company where growth opportunities are very limited. While some parts of Canada (such as the West) can handle more stores, other parts are saturated, or even oversaturated. And even though there is promise in the United States, that market is more competitive and less profitable. It’s going to be a long slog, just as it’s always been.

2. A premium price

Unfortunately, companies with reliable income and growing dividends are very popular, and Tim Hortons is no exception. As a result, the company seems to be trading at full price, with a price/earnings ratio above 22.

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So at the end of the day, the decision to buy Tim Hortons depends on your priorities. If you’re looking for a strong, stable company you can count on, then Tims is a great option. But if you’re looking for something with more upside that could result in spectacular gains, then you should look elsewhere.

CATEGORY

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