Why it's Time to Double-Double Up on Tim Hortons's Stock Today

Description

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) has been criticized harshly by the general public these days — perhaps too harshly. Burger King is firing on all cylinders, and Popeyes Louisiana Kitchen is starting to find its feet, but the talk of the town is not about either of these two chains under the Restaurant Brands umbrella. Right now, all the drama is coming from Tim Hortons, and it seems like there's a new PR issue that's rolling over the rim on a consistent basis.

To start, franchisees were in a bitter battle with Restaurant Brands's management over a price hike in supplies. The Great White North Franchisee Association (GWNFA) ensured that the issue went public and, embarrassingly, it was the talk of the town, and Restaurant Brands's management ended up reverting some changes that made franchisees disgruntled to begin with.

A few months later, Ontario's minimum wage went into effect, and franchisees quickly made moves that negatively impacted their employees. It was front-page news, and once again, the Tim Hortons brand suffered another hit to the chin.

In a previous piece, I'd noted that Restaurant Brands's management needs to take better control over its franchisees; otherwise, they're going to end up hurting the brand. What the franchisees did was unacceptable, and it's clear that the communication channel between management and franchisees has really closed off since the initial battle over supply costs.

The minimum wage hikes were meant to make the lives of low-wage workers easier; unfortunately, there were trade-offs. The Ontario government wanted to meet the "needs" of its minimum wage workers; however, they didn't want to spend a dime to do this.

The result?

Businesses of all sizes were the ones left holding the bag. And then the bag was passed to the employees, who were the ones which were supposed to benefit. It's not just Tim Hortons. Many minimum wage workers lost their jobs, had their hours cut, or had their benefits scrapped, and this is likely just the start of the negative effects from the recent wage hike.

That’s economics 101 for you, but unfortunately, the Ontario government probably won’t learn from this whole experiment until it’s too late. Minimum wage is heading to $15, and that’s going to cost up to 90,000 jobs by 2020, according to a recent report conducted by **Toronto-Dominion Bank**.

Why is Restaurant Brands, the parent company behind Tim Hortons, being punished so harshly by the general public for a move made by Kathleen Wynne and company?

There’s no question that the situation could have been handled better by management and franchisees, but that’s beside the point. Tim Hortons isn’t the “evil” one here; it’s a victim, and I believe Wynne’s verbal attack of Tim Hortons was completely unwarranted.

Although everyone has their crosshairs on Tim Hortons, I believe all fingers will eventually be pointed at the Ontario government, after ~90,000 jobs go up in smoke two years from now. This really isn’t a problem that’s unique to Tim Hortons; it’s unique to the province of Ontario thanks to an aggressive and risky economic experiment, which has the potential to go horribly wrong.

The Tim Hortons brand is hurting, but I think it’s an opportunity for longer-term investors to pick up shares of its parent company Restaurant Brands at a vast discount to its intrinsic value. Tim Hortons continues to suffer from lacklustre comps, and the recent minimum wage hike story isn’t helping, but in the longer-term picture, I think the negative press aimed at Tim Hortons nothing more than noise that’s creating a tremendous buying opportunity for investors.

The company recently more than doubled its dividend, such that it now yields a whopping 3.13%. Investors would be wise to back up the truck today and “double-double” up before shares take off once the general public realizes that Tim Hortons isn’t completely at fault for the minimum wage hike fallout.

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