Will the Struggles at Tim Hortons Continue to Weigh on Restaurant Brands International Inc. Stock?

Description

Tim Hortons, one of the three main franchises for **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR), has been in the news for all the wrong reasons of late. On May 16, a leaked video showed a particularly vile incident that took place at a Langley, British Columbia franchise. The incident, which saw an employee being attacked in a grotesque way, was seemingly sparked by a disagreement between staff and a customer.

In May, a Tim Hortons' franchisee filed a $4 million lawsuit against Restaurant Brands International, claiming that it had refused to renew a license for one of his stores in bad faith. The ongoing battle between Tim Hortons' franchisees and Restaurant Brands has been detrimental to its public image. Franchisees bore the brunt of a public outcry after slashing employee benefits in response to minimum wage hikes in January.

The first quarter results at Restaurant Brands weren't at all encouraging for the Tim Hortons' franchise. Tim Hortons reported system-wide sales growth of 2.1% compared to 11.3% and 10.9%, respectively, at Burger King and Popeyes. Comparable sales decreased 0.3% at Tim Hortons, while Burger King and Popeyes posted growth of 3.8% and 3.2%. Tim Hortons also reported net restaurant growth of 2.8% in comparison to 6.9% at Burger King and 6.8% at Popeyes.

In response to the soft results at Tim Hortons, Restaurant Brands announced its "Winning Together" plan to improve the customer experience at Tim Hortons franchises. In an effort to improve its public image, the company will launch a marketing campaign, and unveiled a $700 million renovation initiative. The latter initiative has actually been the source of considerable friction between franchisees and upper management.

All public controversy and internal battles aside, Tim Hortons' problems will threaten its ability to be competitive going forward. The $1 coffee offering at **McDonald's Corporation** and its higher-priced menu items pose a serious threat to Tim Hortons in Canada. McDonald's has managed to pull itself out of a crisis and has seen remarkable success from its all-day breakfast offering. Rising customer traffic in Canada and other international markets was enough to push overall traffic up in Q1 in spite of dropping traffic in U.S. stores.

Leadership at the company will likely need to find a way to compensate for this competitive difference in future quarters or Tim Hortons risks slipping even further. Improving its decimated public image is a start, but the brand has a steep hill to climb to improve the customer experience from here on in.

Restaurant Brands stock has dropped 6.9% in 2018 as of close on May 16, and shares are down 11.2% year over year. In spite of the struggles at Tim Hortons, the company has posted solid growth, with Burger King performing especially well in successive quarters. The stock also offers a solid quarterly dividend of $0.45 per share, representing a 2.3% dividend yield.

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