



## Tim Hortons May Spur Restaurant Brands International (TSX:QSR) to New Heights

### Description

It has been a year to forget for **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)). The company has been embroiled in an [ugly public relations battle](#) with a group of disgruntled Tim Hortons' franchisees. In Ontario, the company was subject to protests after its response to wage hikes.

Given how often Tim Hortons has been in the news, you're forgiven if you forgot that the company has two other highly popular brands: Burger King and Popeyes. In fact, Tim Hortons only accounts for about 21% of sales. Considering that both Burger King and Popeyes grew sales by the double digits in the first quarter of 2018, investors are unfairly punishing the stock.

Fear not. Much like Tim Hortons has been a drag on the stock, so, too, can it lift the company to new heights.

### Legal battles

In late June, Restaurant Brands International came out on the right side of a ruling by the Government of Canada. The dissident faction of the company's franchisees, the Great White North Franchisee Association (GWFNA), had claimed that the company did not honour the commitments it made in gaining federal approval to acquire Tim Hortons.

Ottawa ruled in favour of Restaurant Brands International, pointing to the company's significant investment to improve distribution and operations. The company jumped a couple of percentage points on the news.

This is but a taste of how the company could rebound if it resolves its issues with franchisees.

### Coffee prices

While the company dukes it out with the GWNFA, here's a short-term catalyst that is sure to help the company's bottom line: coffee prices. In the second quarter, coffee prices tumbled, settling approximately 10% lower than in the first quarter and down almost 20% from its January peak.

Although the company doesn't state how much coffee it buys, it certainly accounts for the majority of cost of goods sold for the Tim Hortons segment. In the first quarter, the segment had a gross margin of 51.8%. Given the significant decline in coffee prices, it would not be surprising to see this number climb by a couple of percentage points.

Likewise, based on first-quarter results, it could add about \$0.05 to \$0.10 to earnings per share next quarter.

### **Better second half**

Make no mistake, Restaurant Brands International still has a dark cloud over its head. The GWFNA is not going away and is in the midst of organizing protests outside the company's head office. Why? The company isn't renewing the license of long-time Tim Hortons' franchisee Mark Kuziora. Kuziora just happens to be an active member of the GWFNA and has signed his name to one of the lawsuits claiming that Restaurant Brands has misused franchise funds.

Mr. Kuziora's license will expire on August 31, 2018, but I expect a resolution to the situation will come before this deadline. Regardless of which way it goes, it will impact the company's stock price.

Despite these headwinds, the company's fundamentals are strong. Burger King and Popeyes' revenue growth have been strong, while lower coffee prices should help offset some of Tim Horton's struggles. Year-to-date, the company has returned 2.4% to shareholders. I expect the [company to outperform](#) in the second half of the year.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

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