The Coffee Wars Are Over: Here's Where We Find Growth!

Description

Close to a decade ago many Canadians were in for a treat as the biggest coffee chains had started a coffee war seeking the morning dollars from the retail client. **Starbucks Corporation** (NASDAQ:SBUX) started a massive expansion plan that saw many new locations open outside big cities, which meant the push into suburbia was well underway.

As this market was traditionally dominated by names such as **McDonald's Corporation** (NYSE:MCD) and of course Tim Hortons which is now owned by **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR), the competition for market share led to many specials and promotional offers. Although good for the consumer, the fight was only temporary as favorites were chosen and sides were taken. Eventually the potential for growth ran out and these names needed to find another area to grow both the top and bottom lines of the income statement.

In the case of Restaurant Brands International Inc., the solution was very clear: they bought another chain outside the breakfast market — Popeyes Chicken, which is very well known by their existing clientele.

What makes this story so attractive from an investment standpoint is the ability of the company to take their system and use it to scale an entirely new chain into the next Tim Hortons. In spite of completing the acquisition only recently, the company has already started to open a number of new locations across the country. For naysayers, all you have to do is walk around the City of Toronto and you will find a number bright orange awnings.

For current customers, there is a high amount of brand recognition and repeat business. For many others, however, the bright orange is becoming ubiquitous, and will eventually lead them to try something new, creating a larger customer base and increasing revenues along the way.

At the time of writing, shares of Restaurant Brands International are trading at a price of $83 per share and offer a dividend yield of no less than 2.75%, which is expected to grow just as the footprint of the company expands. As we analyze the income statement, the profit margin is a healthy 27%, which translates to a high amount of flow through for every dollar that comes in the front door.

No wonder same-store sales are so important in this industry!

As there are only approximately 2,600 locations of Popeyes and over 4,300 Tim Hortons to choose from, the potential for investors to experience an increase in the bottom line is quite substantial. In fact, with many new locations under construction, investors should not be surprised to see an increase to at least 3,000 locations over the short term, which would translate to an increase in revenues by close to 6% and hopefully an increase in the bottom line by much more.

As is often the case, the economies of scale that are created by such a large operation are recognized only once expectations have been set and investors become pleasantly surprised. Here’s to raising the bar and profiting in the process!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:SBUX (Starbucks Corporation)
2. NYSE:MCD (McDonald's Corporation)
3. NYSE:QSR (Restaurant Brands International Inc.)
4. TSX:QSR (Restaurant Brands International Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/14
Date Created
2018/08/01
Author
ryangoldsman