



Does a Struggling Tim Hortons Make Restaurant Brands International Inc. (TSX:QSR) a Strong Sell?

Description

Tim Hortons used to be a brand that Canadians were proud of, but recently the fast-food chain's [image has suffered](#). Not only has its reputation consumers fallen, but it has had public spats with franchisees as well. Most recently, news has come out that one of its Timbits and bagels contained a cancer-causing chemical that is used to kill weeds.

It has gone from bad to worse for the coffee chain, which has struggled to generate growth for parent company **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)). In its most recent quarter, Tim Hortons showed no growth in its existing stores, although that was still an improvement from last year, when it declined by 0.8%.

Opening more stores has helped grow its overall sales by more than 2%, but a lack of organic growth should be a big concern for Restaurant Brands and investors.

Should the company be focusing on expansion amid so many concerns at home?

One way Restaurant Brands is looking to solve the growth problem is by expanding Tim Hortons into new international markets, with [China](#) being the latest destination. Last year, it was announced that the coffee shop would be expanding into Spain.

While it's good to grow a successful brand like Tim Hortons, I can't help but wonder if it's a good time to do so amid all of these problems. After all, this may simply multiply the severity of the problems and present even bigger ones in the process. The company could be sacrificing profits for the sake of sales.

The issues in its home market simply aren't going away anytime soon, which could result in losses that more than offset any gains made across the ocean. Investors should keep a close eye on these developments, as we're likely to see Restaurant Brands costs rise as the expansion gets underway, and it'll be interesting to see how much sales growth is gained in return.

While we have seen Canadian brands find success in international markets, it's always a risk that the expansion falls flat, which could compound the company's current problems.

Takeaway for investors

From an investor's standpoint, the problem that Tim Hortons presents for Restaurant Brands is a big one. A merger between two of the biggest fast food brands should have made the stock unbeatable, but that hasn't been the case. The stock has grown by an impressive 90% late 2014, but in the past year it has declined by 2%, as it hasn't been able to generate much momentum, and it's easy to see why.

Tim Hortons should have been an easy brand to grow, but with a heavy-handed focus on costs and managing franchisees, it's clear that what Restaurant Brands has been doing hasn't worked. And in order for the company to be successful, it's going to need more than Burger King and Popeyes to generate growth.

Investors who own Restaurant Brands should consider selling the stock, as there's little reason to expect things to get much better from here on out.

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