Why Tim Hortons Could Get Spun off From Restaurant Brands

Description

Any time there's a messy corporate party, it seems like Bill Ackman comes out of nowhere, uninvited, offering gifts. This time, the party is at **Restaurant Brands International** (TSX:QSR)(NYSE:QSR). Bill Ackman has officially announced he's jumping aboard and intent on building a position in the fast food conglomerate. Mr. Ackman states there is nothing hostile about his position.

However, almost immediately after his announcement, stock purchase analysts began warning of activist motives. Queue the interesting bit. During Restaurant Brands' most recent quarterly earnings release, not surprisingly, Tim Hortons lagged both the Burger King and Popeyes' Louisiana Kitchen banners. The surprising bit was the degree to which Tim Hortons underperformed compared to its peers.

Chicken and veggies for the win

The Popeyes' chicken sandwich was the star of the show, and the results for the company's banner blew everyone (myself included) away – a 32% increase quarter over quarter. That's right – coronavirus happened, and Popeyes saw a volume increase by almost 1/3.

Burger King's impossible whopper and drive-thru saved that banner's skin as well. Menu innovation and a business model with little reliance on restaurant dining has served Burger King well, comparatively speaking.

Tim Hortons' sales dipped by double digits, declining 10% on weak sales of coffee and breakfast items. These dismal results simply look embarrassing when compared to Burger King's flat quarter and Popeyes' explosive quarter.

As Restaurant Brands' largest banner, there has also been some discussion that Bill Ackman may be pursuing strategic review/refocus of the conglomerate's banners. An obvious potential option is the spinoff of Tim Hortons from Restaurant Brands, as it was prior to the merger.

A disappearing advantage

The real incentive for the Tim Hortons' acquisition was a Canadian head office and the conservative-era tax advantages of being headquartered in Canada. Since the Trump Administration's corporate tax cut, this advantage has disappeared.

It now appears that Tim Hortons is an anchor weighing down an otherwise undervalued and great long-term buy- and-hold opportunity at these levels.

While Restaurant Brands did miss earnings expectations, the miss was not as wide as expected. In general, Restaurant Brands' earnings were not as bad as many analysts thought. Further, the announcement of a stake by Bill Ackman has renewed interest in this stock.

I believe investors ought to look past the near-term weakness of Tim Hortons. They should look toward a post-COVID-19 world a couple quarters from now to visualize the potential value of the company.

The acquisition of a fourth banner isn't likely due to general consternation around corporate debt levels as a key risk. Tim Hortons is simply going to have a tough time growing in the next five years. I therefore wouldn't be surprised if the company were reorganized to make the individual balance sheets cleaner.

Whether such a reorganization happens is pure speculation. However, Foolish readers must agree such a scenario makes logical sense, at least in theory. Right now is a great time to load up on this stock regardless of what happens. The party's just getting started.

Stay Foolish, my friends.

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