

Hungry Tims investors can wait a bit before taking a bite

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Now the truth can be told. When selling the Deal of the Century, Bay Street had the poor, downtrodden retail investor's best interests at heart all along.

You remember the occasion, don't you? **Tim Hortons** went public on March 24. Chief baker Paul House rang the opening bell on the Toronto Stock Exchange. Bright lights, applause, and sticky Boston cream everywhere.

But you -- you got shut out. Go on, admit it. There's no shame, you've got plenty of company. You wanted a piece of the action at the IPO price, \$27 a share. You put in an order, but you got nothing. Zip. Zilch. A big, fat doughnut. Why? Because, apparently, your broker thinks you're Not Very Important.

And you were envious, if not a little furious, when the stock leapt to nearly \$38 on the first day of trading. That instant gain went into the pocket of some corpulent, overpaid money manager, not you. Oh, the injustice of it all! You vowed revenge, perhaps even took some. Bob King, an individual investor from London, Ont., told The Globe that he was closing down his investment accounts at RBC Dominion Securities -- where he held more than half a million dollars, he said -- as a form of retribution.

Well, Mr. King and the rest of you hosers who felt so slighted, now's your chance. While you were fuming, Hortons began sliding like a Timbit down a lard-covered slope. Last week, the shares traded as low as \$26.67, a modest discount to the IPO price.

See? Your broker wasn't giving you the shaft back in March; he just wanted you to get a better price, 4½ months later.

So if the clamouring hordes left out of the IPO thought it was a bargain at \$27 in March -- if they thought it was a 'can't miss' -- surely they'll buy it now, right? The prospect of an easy one-day profit has evaporated, of course: The hype is gone and the fast-money crowd has moved on to other things. But if you're an investor, rather than a stock flipper, Tims is starting to look intriguing.

There's nothing much wrong with the business, which is doing well for reasons that hardly need explaining: terrific brand name, excellent profit margins, happy franchisees. Analysts figure the company will make \$1.33 a share this year, which implies a return on equity of about 25 per cent. Even Royal Bank is jealous.

Some fear the company has saturated the market, perhaps because Tim Hortons seems to have opened a store everywhere but your attic. But the numbers don't say so. In Canada, sales are growing about 7 per cent, excluding new locations, and growing even more briskly in the United States.

All of the company's profit comes from Canada, by the way -- the U.S. stores are break-even. But that's not news, and it certainly doesn't explain a 28-per-cent drop in the stock from its post-IPO

high. Here's another clue: Through July, investors had sold short 12.2 million shares of Tim Hortons on the New York Stock Exchange. That's more than one-third of the shares in the public float. By comparison, Biovail, which considers itself the victim of an evil conspiracy by short sellers, has only 3.4 million shares sold short on the Big Board.

Is Wall Street, oblivious to the joy of a maple dip, ganging up on a Canadian institution? Hardly. More likely, the short selling is a temporary thing. Wendy's International, which still owns 83 per cent of Tims, plans to spin out that stake to its shareholders this fall. Some U.S. hedge funds aren't waiting. They're shorting Tims today and buying Wendy's, a trade that gives them exposure to the burger business without a Canadian doughnut chain they don't quite understand.

That suggests Hortons stock could fall even further once the spinoff happens and more U.S. shareholders dump their holdings. At 20 times this year's earnings, Tims is still no bargain, but it's getting a lot closer. Peter Holden, an analyst at Veritas Investment Research, figures the current share price is a fair one for the existing stores, with a free option on future growth.

As an investor, you don't want to pay a fair price, but a cheap one. So here's a strategy for playing Tims: Decide for yourself what "cheap" would mean -- \$26 a share? \$24? -- then wait. You might be surprised how low it can get. There's no rush to buy it. But then, there never was.