Restaurant Brands International (QSR)

Updated August 23rd, 2018 by Nick McCullum

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	5.4%	**Volatility Percentile:**	50.9%
Fair Value Price:	$43	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	22.6%
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.6%	**Valuation Percentile:**	11.3%
Dividend Yield:	3.0%	**5 Year Price Target**	$65	**Total Return Percentile:**	34.7%

Overview & Current Events

Restaurant Brands International is one of the world's largest owner-operators of quick service restaurants (hence its stock ticker, QSR). The company was founded in 2014 by the $12.5 billion merger between American fast food restaurant chain Burger King and Canadian coffee shop and restaurant Tim Horton's. Later, Restaurant Brands International expanded its franchise portfolio with the 2017 acquisition of American fast food chain Popeye's Louisiana Kitchen. At the end of the most recent reporting period, Restaurant Brands International had the following restaurant counts at each of its three franchises: Tim Horton's, 4,794; Burger King, 17,022; Popeye's Louisiana Kitchen, 2,975. Restaurant Brands International is headquartered in Oakville, Ontario, Canada and trades on the New York Stock Exchange with a market capitalization of $15 billion.

In early August, Restaurant Brands International reported (8/1/18) financial results for the second quarter of fiscal 2018. Each of the company's three major restaurant businesses generated strong sales growth. More specifically, system-wide sales growth for each brand was as follows: Tim Horton's, 2.2%; Burger King, 8.4%; Popeye's Louisiana Kitchen, 10.7%. The strong growth at Burger King and Popeye's is the result of accelerated net restaurant growth. On a company-wide basis, Restaurant Brands International grew its aggregate revenues by 18.6% while net income grew by 29.6%. Adjusted diluted earnings-per-share $0.66 increased by 29.4% over the same period a year ago.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	---	---	---	---	$0.33	$0.65	$0.33	$0.78	$1.45	$1.80	***$2.50***	***$3.85***
DPS	---	---	---	---	$0.04	$0.24	$0.30	$0.44	$0.62	$0.78	***$0.85***	***$1.25***
S/O	---	---	---	---	350.24	351.82	202.05	225.71	234.24	243.90	***247.0***	***240.0***

Restaurant Brands International has generated $1.25 of adjusted earnings-per-share through the first six months of fiscal 2018. Based on this year-to-date progress, we believe the company is likely to generate earnings-per-share of around $2.50 for the twelve-month reporting period. Beyond that, the expanding store counts of Restaurant Brands International combined with the operational expertise of 3G Capital (the majority owners of QSR) means that the company should be capable of growing at attractive rates moving forward. Our long-term earnings-per-share growth estimate for Restaurant Brands International is 9%, which gives a 2023 earnings-per-share estimate of $3.85.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	---	---	---	---	46.2	30.0	85.8	49.8	28.9	32.9	***23.9***	-
Avg. Yld.	---	---	---	---	0.3%	1.2%	1.1%	1.1%	1.5%	1.3%	***3.0%***	-

Restaurant Brands International's valuation has been irrationally high for most of its time since the iconic Burger King-Tim Horton's merger. Indeed, the company's average price-to-earnings ratio has been 45.6, which is far too high for a restaurant chain business (or, frankly, any company). We believe a fair value for Restaurant Brands International is a price-to-earnings ratio of around 17. The company is trading at an earnings multiple of 23.9 today. If Restaurant Brands

International's stock declines to a price-to-earnings ratio of 17 over a period of 5 years, this will reduce its investors' total returns by 6.6% per year during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	---	---	---	---	---	13.7%	4.0%	9.4%	10.3%	10.6%	***10.0%***	***10.0%***
Int. Cov.	---	---	---	---	1.6	2.6	0.1	2.3	3.5	3.1	***3.0***	***3.0***
Debt/A	---	---	---	---	---	74.0%	64.2%	66.3%	64.5%	78.5%	***75.0%***	***70.0%***
Std. Dev.	---	---	---	---	---	---	---	24.0%	25.9%	16.0%	***18.0%***	***18.0%***
Payout	---	---	---	---	12.1%	36.9%	90.9%	56.4%	42.8%	43.3%	***34.0%***	***32.5%***

Restaurant Brands International's quality metrics have been far more volatile than many of the other companies in our investment universe, largely because the company's management team often makes significant changes to its capital structure to fund growth, perform acquisitions, or improve its cost structure. With that said, we expect the company's quality metrics to stabilize and improve over time.

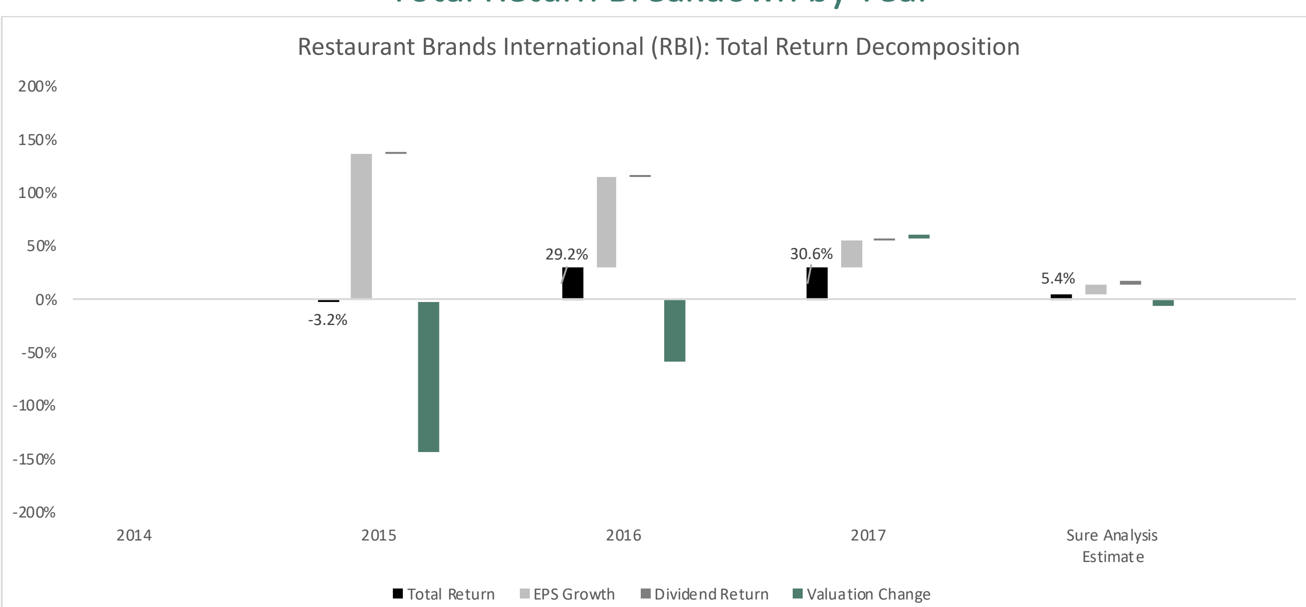
Qualitatively, Restaurant Brands International has two major competitive advantages. The first is the strength of its various brands. Burger King, Tim Horton's, and Popeye's Louisiana Kitchen are each household names, which provides a measure of purchasing loyalty with the firm's consumers. Restaurant Brands International's second competitive advantage is the strength of its management team. The company is majority owned by 3G Capital, the Brazilian private equity firm that is known for aggressive cost-cutting methods and has been behind the historical transformations of other companies like Anheuser-Busch Inbev and the Kraft-Heinz Company.

Final Thoughts & Recommendation

Restaurant Brands International owns three of the world's most iconic restaurant chains: Burger King, Tim Horton's, and Popeye's Louisiana Kitchen. Moreover, the company is backed by some of the most successful owner-operators of related businesses (consumer packaged foods and alcohol) in the world. These characteristics may make the stock appealing for investors looking to boost their restaurant exposure.

With that said, we cannot stomach the company's current valuation, even though it has declined from its normally-lofty levels. Restaurant Brands International's valuation means that todays' investors are likely to realize only mid-single-digit total returns moving forward. Accordingly, the company fails to earn a buy recommendation at current prices, although we recommend that investors whose cost basis is significantly below QSR's current price continue to hold the stock.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.