Restaurant Brands International (QSR)

Updated October 24th, 2018 by Nick McCullum

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	6.5%	**Volatility Percentile:**	49.6%
Fair Value Price:	$43	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	22.1%
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Growth Percentile:**	82.4%
Dividend Yield:	3.2%	**5 Year Price Target**	$65	**Valuation Percentile:**	10.6%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	29.7%

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, 4,805; Burger King, 17,239; Popeye's Louisiana Kitchen, 3,022. Restaurant Brands International is headquartered in Oakville, Ontario, Canada and trades on the New York Stock Exchange with a market capitalization of $14.2 billion.

In late October, Restaurant Brands International reported (10/24/18) financial results for the third quarter of fiscal 2018. In the quarter, the company generated system-wide sales growth across each of its restaurant chains. More specifically, Tim Horton's generated system-wide sales growth of 2.8%, Burger King generated system-wide sales growth of 7.8%, and Popeye's Louisiana Kitchen generated system-wide sales growth of 7.9%. The majority of this growth was due to new restaurant additions, as comparable store sales growth was rather weak: 0.6% at Tim Horton's, 1.0% at Burger King, and 0.5% at Popeye's Louisiana Kitchen. Net restaurant count increased by 2.7% at Tim Horton's, 6.1% at Burger King, and 7.6% at Popeye's Louisiana Kitchen. Moving down the income statement, Restaurant Brands International generated adjusted EBITDA growth of 1.9% and adjusted net income growth of 9.7%. Adjusted diluted earnings-per-share of $0.64 rose by 10.3% over the same period a year ago. Note that each of these growth rates has been adjusted to exclude the impact of a new accounting standard that came into effect on January 1st, 2018 that impacts year-to-year comparability. Although a ~10% earnings-per-share growth rate is appealing for a quick service restaurant operator, the company's revenue and earnings-per-share still slightly missed expectations and yet; shares rose slightly following the announcement.

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***
Shares	---	---	---	---	350.24	351.82	202.05	225.71	234.24	243.90	***247.0***	***240.0***

Restaurant Brands International has generated $1.88 of adjusted earnings-per-share through the first nine months of fiscal 2018. Based on this year-to-date progress, we believe that our prior estimate of $2.50 in full-year earnings-per-share continues to be accurate. 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.

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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	***22.8***	***17.0***
Avg. Yld.	---	---	---	---	0.3%	1.2%	1.1%	1.1%	1.5%	1.3%	***3.2%***	***1.9%***

Restaurant Brands International's valuation has been irrationally high (average price-to-earnings ratio of 45.6) for most of its time since the iconic Burger King-Tim Horton's merger. 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 22.8 today. If its valuation contracts to 17 times earnings over a period of 5 years, this will reduce its returns by 6.6% per year during that time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

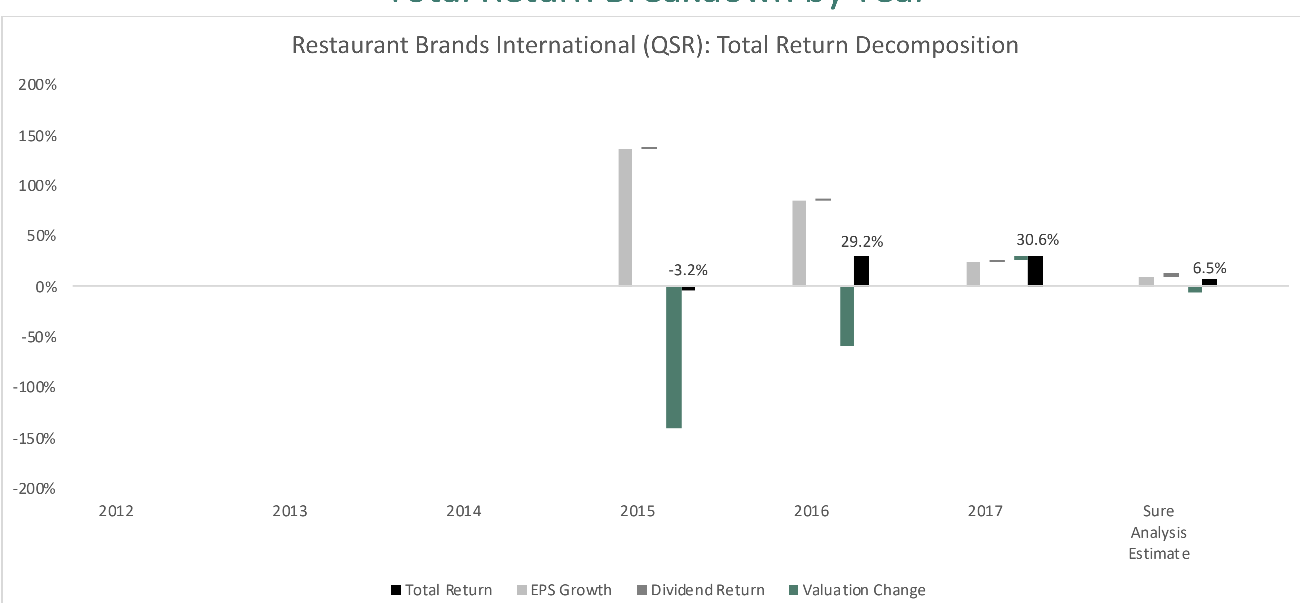
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	---	---	---	---	---	13.7%	4.0%	9.4%	10.3%	10.6%	***10.0%***	***10.0%***
Debt/A	---	---	---	---	1.6	2.6	0.1	2.3	3.5	3.1	***3.0***	***3.0***
Int. Cov.	---	---	---	---	---	74.0%	64.2%	66.3%	64.5%	78.5%	***75.0%***	***70.0%***
Payout	---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

Restaurant Brands International's quality metrics have been more volatile than many of the other companies in our investment universe, largely because its management team often makes material changes to its capital structure to fund growth or perform acquisitions. We expect the company's quality metrics to stabilize and improve over time. The company earns a C ratings for both Dividend Safety and Retirement Suitability due largely to its low payout ratio.

Final Thoughts & Recommendation

Restaurant Brands International's valuation continues to decline from its historically-lofty levels. Still, the company continues to trade in excess of our estimate of fair value. Accordingly, the company earns a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	-	-	-	-	1970.9	1146.3	1198.8	4052.2	4145.8	4576.1
Gross Profit	-	-	-	-	818.6	798.6	863.4	1739.5	1964.4	2248.2
Gross Margin	-	-	-	-	41.5%	69.7%	72.0%	42.9%	47.4%	49.1%
SG&A Exp.	-	-	-	-	272.8	204.8	206.4	304	280.5	392.6
D&A Exp.	-	-	-	-	114.2	65.8	68.8	182	172.1	181.1
Operating Profit	-	-	-	-	516	576.8	632.1	1420.3	1662.1	1831.5
Operating Margin	-	-	-	-	26.2%	50.3%	52.7%	35.1%	40.1%	40.0%
Net Profit	-	-	-	-	117.7	233.7	161.4	375.1	615.6	648.8
Net Margin	-	-	-	-	6.0%	20.4%	13.5%	9.3%	14.8%	14.2%
Free Cash Flow	-	-	-	-	154.2	299.7	228.4	1089.5	1235.3	1345.3
Income Tax	-	-	-	-	42	88.5	15.3	162.2	243.9	-133.6

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	-	-	-	-	-	5828.5	21343	18411	19125	21224
Cash & Equivalents	-	-	-	-	-	786.9	1803.2	757.8	1460.4	1073.4
Accounts Receivable	-	-	-	-	-	190.6	448.1	422	417.8	470.6
Inventories	-	-	-	-	-	1.2	97.8	81.3	71.8	78
Goodwill & Int. Ass.	-	-	-	-	-	3426	15681	13722	13903	16845
Total Liabilities	-	-	-	-	-	4312.3	13707	12201	12339	16663
Accounts Payable	-	-	-	-	-	31.1	223	361.5	369.8	412.9
Long-Term Debt	-	-	-	-	-	2961.6	9955.3	8518.4	8504.1	11879
Shareholder's Equity	-	-	-	-	-	1516.2	1878.2	1336.6	1702.5	2226.4
D/E Ratio	-	-	-	-	-	1.9533	1.9237	1.8384	1.701	5.3356

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-	-	-	-	-	-	1.2%	1.9%	3.3%	3.2%
Return on Equity	-	-	-	-	-	-	9.5%	23.3%	40.5%	33.0%
ROIC	-	-	-	-	-	-	1.5%	2.3%	4.1%	4.1%
Shares Out.	-	-	-	-	350.24	351.82	202.05	225.71	234.24	243.90
Revenue/Share	-	-	-	-	5.49	3.19	3.35	8.51	8.82	9.59
FCF/Share	-	-	-	-	0.43	0.83	0.64	2.29	2.63	2.82

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.