Restaurant Brands International (QSR)

Updated October 29th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$66	**5 Year CAGR Estimate:**	5.3%	**Volatility Percentile:**	37.8%
Fair Value Price:	$48	**5 Year Growth Estimate:**	9.0%	**Momentum Percentile:**	67.3%
% Fair Value:	139%	**5 Year Valuation Multiple Estimate:**	-6.3%	**Growth Percentile:**	88.9%
Dividend Yield:	3.0%	**5 Year Price Target**	$73	**Valuation Percentile:**	17.8%
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Total Return Percentile:**	40.3%

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, 4,887; Burger King, 18,232; Popeye's Louisiana Kitchen, 3,192. Restaurant Brands International is headquartered in Oakville, Ontario, Canada and trades on the New York Stock Exchange with a market capitalization of $31 billion.

In late October, Restaurant Brands International reported (10/28/19) financial results for the third quarter of fiscal 2019. Tim Horton's saw its system sales decline 0.1% but Burger King generated system-wide sales growth of 10.7% and Popeye's Louisiana Kitchen generated system-wide sales growth of 15.6%. Burger King posted its highest quarterly same-store sales growth (4.8%) since 2015 and Popeye's posted same-store sales growth of 9.7%, which is nearly the highest in the last 20 years. The strong performance of Burger King resulted primarily from the successful launch of the Impossible Whopper, a plant-based burger. Net restaurant count increased 1.7% at Tim Horton's, 5.8% at Burger King, and 5.6% at Popeye's. Adjusted earnings-per-share rose 14%, from $0.63 to $0.72, in line with analysts' consensus.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	$0.33	$0.65	$0.33	$0.78	$1.45	$2.10	$2.63	***$2.80***	***$4.31***
DPS	---	---	---	$0.04	$0.24	$0.30	$0.44	$0.62	$0.78	$1.80	***$2.00***	***$2.70***
Shares[1]	---	---	---	350.2	351.8	358.0	476.0	470.0	477.0	473.0	***468.0***	***420.0***

Restaurant Brands International grew its earnings-per-share by 25% last year, mostly thanks to the opening of new stores. While same-store sales growth has markedly improved in the last two quarters, the volatile same-store sales growth is a concern, as this metric reflects the potential growth rate when the company approaches a saturation point in the number of restaurants. However, the company has ample room to keep opening new stores for several years. Management has announced plans to increase the total store count from the current level of 26,311 to more than 40,000 over the next 8-10 years. Thanks to this growth potential and the operational expertise of 3G Capital (the majority owners of QSR), we expect Restaurant Brands International to grow its earnings-per-share by about 9% per year over the next five years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	46.2	30.0	85.8	49.8	28.9	32.9	22.1	***23.6***	***17.0***
Avg. Yld.	---	---	---	0.3%	1.2%	1.1%	1.1%	1.5%	1.3%	3.1%	***3.0%***	***3.7%***

[1] Share count is in millions.

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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Restaurant Brands International's valuation has been irrationally high (average price-to-earnings ratio of 42.2) 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 stock has shed 16% off its all-time high two months ago but is still trading far above our assumed fair value, at an earnings multiple of 23.6. If its valuation contracts to 17 times earnings over the next five years, the stock will incur a -6.3% annualized drag in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	24.0%	25.9%	16.0%	68.4%	***71.4%***	***62.7%***

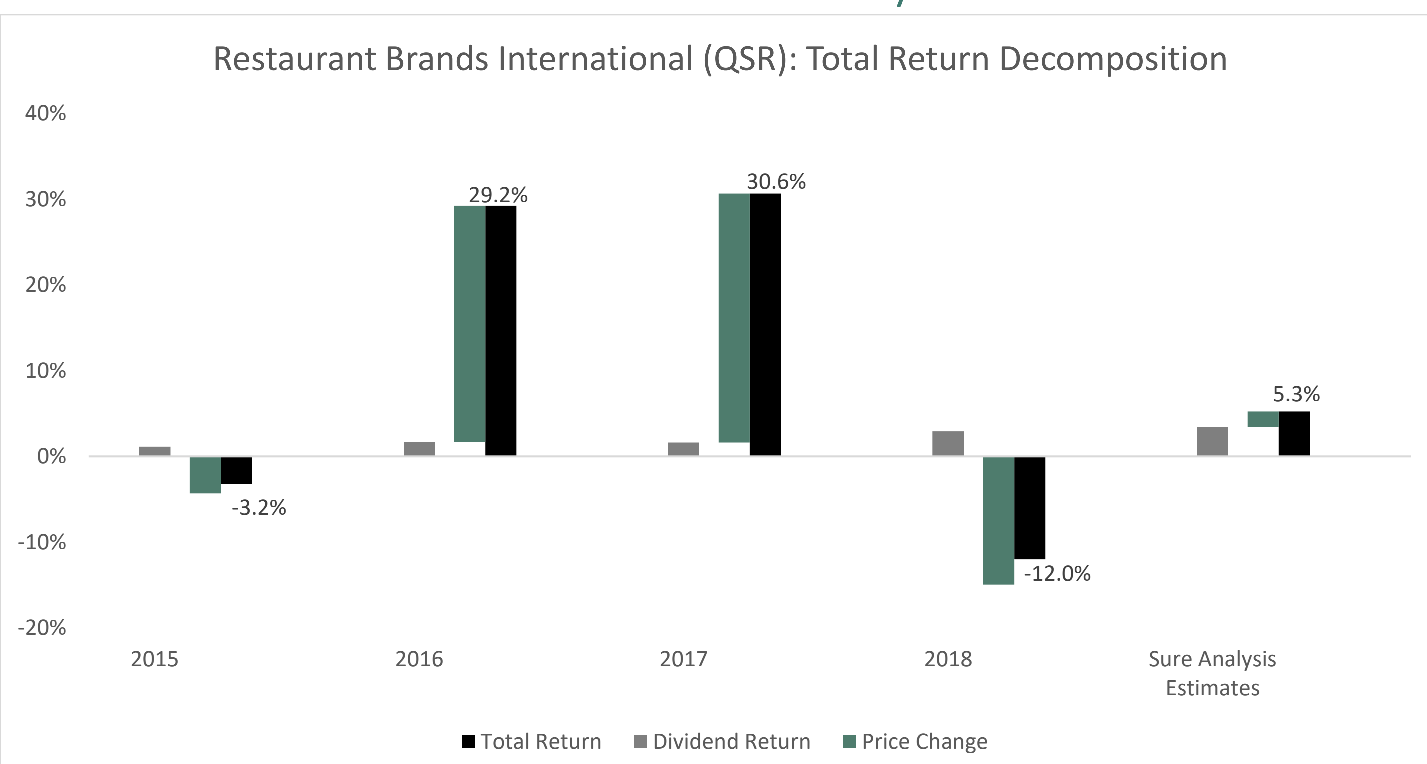
Restaurant Brands International operates in the business of quick service restaurants, where competition has been remarkably heated in recent years. Nevertheless, the company can be considered to have a meaningful competitive advantage; the strength of its brands.

Restaurant Brands International's operates with an appreciable amount of debt, as its net debt of $16.0 billion is about 13 times its annual earnings and its interest expense consumes 27% of its operating income. However, thanks to its reliable growth trajectory, the company is not likely to have any problem servicing its debt.

Final Thoughts & Recommendation

Restaurant Brands International has shed 16% off its recent all-time high and thus it has become somewhat more attractive. Nevertheless, it is still trading in excess of our estimate of fair value and may offer just a 5.3% average annual return over the next five years. We thus rate the stock as a hold. In the absence of a recession, the stock could maintain its premium valuation so it may reward investors thanks to its strong growth. However, investors should be aware of the significant downside risk of the stock in the event of a downturn due to its rich valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	1971	1146	1199	4052	4146	4576	5357
Gross Profit	N/A	N/A	N/A	819	799	863	1740	1964	2248	3117
Gross Margin	N/A	N/A	N/A	41.5%	69.7%	72.0%	42.9%	47.4%	49.1%	58.2%
SG&A Exp.	N/A	N/A	N/A	273	205	206	304	281	393	1214
D&A Exp.	N/A	N/A	N/A	114	66	69	182	172	181	180
Operating Profit	N/A	N/A	N/A	516	577	632	1420	1662	1832	1895
Operating Margin	N/A	N/A	N/A	26.2%	50.3%	52.7%	35.1%	40.1%	40.0%	35.4%
Net Profit	N/A	N/A	N/A	118	234	161	375	616	649	612
Net Margin	N/A	N/A	N/A	6.0%	20.4%	13.5%	9.3%	14.8%	14.2%	11.4%
Free Cash Flow	N/A	N/A	N/A	154	300	228	1090	1235	1345	1079
Income Tax	N/A	N/A	N/A	42	89	15	162	244	-134	238

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	N/A	5829	21343	18411	19125	21224	20141
Cash & Equivalents	N/A	N/A	N/A	N/A	787	1803	758	1460	1073	913
Accounts Receivable	N/A	N/A	N/A	N/A	191	448	422	404	456	452
Inventories	N/A	N/A	N/A	N/A	1	98	81	72	78	75
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	3426	15681	13722	13903	16845	15949
Total Liabilities	N/A	N/A	N/A	N/A	4312	13707	12201	12339	16663	16523
Accounts Payable	N/A	N/A	N/A	N/A	31	223	362	370	413	513
Long-Term Debt	N/A	N/A	N/A	N/A	2962	9955	8518	8504	11879	11914
Shareholder's Equity	N/A	N/A	N/A	N/A	1516	1878	1337	1703	2226	1611
D/E Ratio	N/A	N/A	N/A	N/A	1.95	1.92	1.84	1.70	5.34	7.40

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	N/A	N/A	1.2%	1.9%	3.3%	3.2%	3.0%
Return on Equity	N/A	N/A	N/A	N/A	N/A	9.5%	23.3%	40.5%	33.0%	31.9%
ROIC	N/A	N/A	N/A	N/A	N/A	1.5%	2.3%	4.1%	4.1%	3.8%
Shares Out.	N/A	N/A	N/A	350.24	351.82	202.05	225.71	234.24	243.90	251.0
Revenue/Share	N/A	N/A	N/A	9.75	5.67	3.35	8.51	8.82	9.59	11.33
FCF/Share	N/A	N/A	N/A	0.76	1.48	0.64	2.29	2.63	2.82	2.28

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