



Restaurant Brands International (QSR)

Updated February 11th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	6.6%	Market Cap:	\$31.0 B
Fair Value Price:	\$51	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	3/13/2020
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-5.0%	Dividend Payment Date:	4/3/2020
Dividend Yield:	3.2%	5 Year Price Target	\$78	Years Of Dividend Growth:	8
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	4.0%

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, 4,932; Burger King, 18,838; Popeye's Louisiana Kitchen, 3,316. 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 early February, Restaurant Brands International reported (2/10/20) financial results for the fourth quarter of fiscal 2019. In the year, Tim Horton's saw its system sales decline 0.3% but Burger King generated system-wide sales growth of 9.3% and Popeye's Louisiana Kitchen generated system-wide sales growth of 18.5%. The impressive performance of Popeye's resulted from the launch of its chicken sandwich, which has proved a game changer for the brand. Burger King posted its strongest restaurant growth (5.9%) in the last 20 years. The strong performance of Burger King also resulted from the successful launch of the Impossible Whopper, a plant-based burger. Adjusted earnings-per-share rose only 3.4% due to high franchise and property expenses but the stock rallied 3%, as sales exceeded analysts' consensus.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	\$0.33	\$0.65	\$0.33	\$0.78	\$1.45	\$2.10	\$2.63	\$2.72	\$3.00	\$4.62
DPS	---	---	\$0.04	\$0.24	\$0.30	\$0.44	\$0.62	\$0.78	\$1.80	\$2.00	\$2.08	\$2.80
Shares¹	---	---	350.2	351.8	358.0	476.0	470.0	477.0	473.0	469.0	465.0	430.0

While same-store sales growth has markedly improved in the last three 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 27,086 to more than 40,000 over the next 8-10 years. Moreover, the recent acceleration in the growth of Popeye's and Burger King bodes well for the growth potential of Restaurant Brands International in the near future. Thanks to the strong 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	46.2	30.0	85.8	49.8	28.9	32.9	22.1	24.8	22.0	17.0
Avg. Yld.	---	---	0.3%	1.2%	1.1%	1.1%	1.5%	1.3%	3.1%	3.0%	3.2%	3.6%

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 40.1) 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 in the summer but is still trading far above our assumed fair value, at an earnings multiple of 22.0. If its valuation contracts to 17 times earnings over the next five years, the stock will incur a -5.0% annualized drag in its returns during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	24.0%	25.9%	16.0%	68.4%	73.5%	69.3%	63.6%

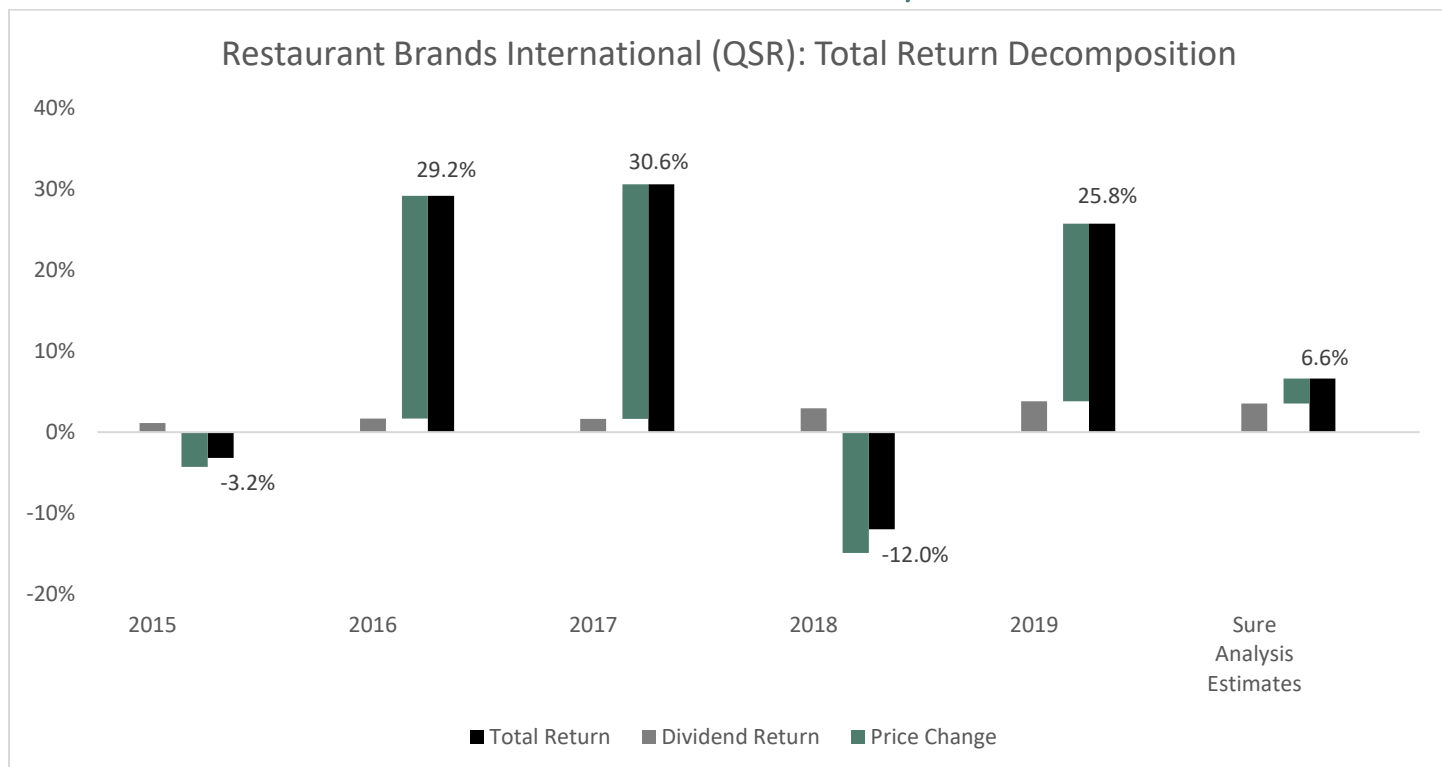
Restaurant Brands International operates in the business of quick service restaurants, where competition has been remarkably heated in recent years. Nevertheless, the company can be considered to have a meaningful competitive advantage; the strength of its brands.

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 26% 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 6.6% average annual return over the next five years. We thus rate the stock as a hold. In the absence of a recession, we believe that the stock will offer attractive returns thanks to its strong business momentum. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	N/A	N/A	1971	1146	1199	4052	4146	4576	5357	5603
Gross Profit	N/A	N/A	819	799	863	1740	1964	2248	3117	3250
Gross Margin	N/A	N/A	41.5%	69.7%	72.0%	42.9%	47.4%	49.1%	58.2%	58.0%
SG&A Exp.	N/A	N/A	273	205	206	304	281	393	1214	1208
D&A Exp.	N/A	N/A	114	66	69	182	172	181	180	185
Operating Profit	N/A	N/A	516	577	632	1420	1662	1832	1895	2033
Operating Margin	N/A	N/A	26.2%	50.3%	52.7%	35.1%	40.1%	40.0%	35.4%	36.3%
Net Profit	N/A	N/A	118	234	161	375	616	649	612	643
Net Margin	N/A	N/A	6.0%	20.4%	13.5%	9.3%	14.8%	14.2%	11.4%	11.5%
Free Cash Flow	N/A	N/A	154	300	228	1090	1235	1345	1079	1414
Income Tax	N/A	N/A	42	89	15	162	244	-134	238	341

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	N/A	N/A	N/A	5829	21343	18411	19125	21224	20141	22360
Cash & Equivalents	N/A	N/A	N/A	787	1803	758	1460	1073	913	1533
Accounts Receivable	N/A	N/A	N/A	191	448	422	404	456	452	527
Inventories	N/A	N/A	N/A	1	98	81	72	78	75	84
Goodwill & Int. Ass.	N/A	N/A	N/A	3426	15681	13722	13903	16845	15949	16214
Total Liabilities	N/A	N/A	N/A	4312	13707	12201	12339	16663	16523	18101
Accounts Payable	N/A	N/A	N/A	31	223	362	370	413	513	644
Long-Term Debt	N/A	N/A	N/A	2962	9955	8518	8504	11879	11914	11860
Shareholder's Equity	N/A	N/A	N/A	1516	1878	1337	1703	2226	1611	2490
D/E Ratio	N/A	N/A	N/A	1.95	1.92	1.84	1.70	5.34	7.40	4.76

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	N/A	N/A	N/A	N/A	1.2%	1.9%	3.3%	3.2%	3.0%	3.0%
Return on Equity	N/A	N/A	N/A	N/A	9.5%	23.3%	40.5%	33.0%	31.9%	31.4%
ROIC	N/A	N/A	N/A	N/A	1.5%	2.3%	4.1%	4.1%	3.8%	4.1%
Shares Out.	N/A	N/A	350.2	351.8	358.0	476.0	470.0	477.0	473.0	469.0
Revenue/Share	N/A	N/A	9.75	5.67	3.35	8.51	8.82	9.59	11.33	11.95
FCF/Share	N/A	N/A	0.76	1.48	0.64	2.29	2.63	2.82	2.28	3.01

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

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