Restaurant Brands International (QSR)

Updated May 8th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$23.4 B
Fair Value Price:	$36	**5 Year Growth Estimate:**	13.0%	**Ex-Dividend Date:**	6/16/2020
% Fair Value:	139%	**5 Year Valuation Multiple Estimate:**	-6.4%	**Dividend Payment Date:**	6/30/2020
Dividend Yield:	4.2%	**5 Year Price Target**	$66	**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, 4,925; Burger King, 18,848; Popeye's Louisiana Kitchen, 3,336. Restaurant Brands International is headquartered in Oakville, Ontario, Canada and trades on the New York Stock Exchange with a market capitalization of $23.4 billion.

In early May, Restaurant Brands International reported (5/1/20) financial results for the first quarter of fiscal 2020. Due to the social distancing measures taken for the coronavirus, Tim Horton's and Burger King saw their system sales decline -9.9% and -3.3%, respectively, but Popeye's Louisiana Kitchen generated system-wide sales growth of 32.3%. The impressive performance of Popeye's resulted from the great success of its chicken sandwich, which has proved a game changer for the brand. Burger King also exhibited resilient performance thanks to the success of the Impossible Whopper, a plant-based burger. Adjusted earnings-per-share fell -9%, from $0.53 to $0.48.

Nearly all the restaurants of the chain are open in North America right now but only half of them are open in international markets due to the pandemic. The company is trying to maximize the potential of its stores via drive-thru, take-out and delivery options but it will inevitably be hurt by the pandemic this year. We thus expect it to earn only $2.00 (instead of $3.00) per share this year.

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	***$2.00***	***$3.68***
DPS	---	---	$0.04	$0.24	$0.30	$0.44	$0.62	$0.78	$1.80	$2.00	***$2.08***	***$2.52***
Shares[1]	---	---	350.2	351.8	358.0	476.0	470.0	477.0	473.0	469.0	***467.0***	***440.0***

While same-store sales growth had markedly improved before the pandemic, 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 27,109 to more than 40,000 over the next 8-10 years. Moreover, the recent strength of Popeye's and Burger King, thanks to their successful launches, bodes well for the growth potential of Restaurant Brands International. The company will incur a dip in its earnings this year but we expect it to recover from next year, along with the global economy. 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 13% per year over the next five years off their suppressed level expected this year.

[1] Share count is in millions.

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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	***25.0***	***18.0***
Avg. Yld.	---	---	0.3%	1.2%	1.1%	1.1%	1.5%	1.3%	3.1%	3.0%	***4.2%***	***3.8%***

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 18. The stock has shed -37% off its all-time high in the summer but is still trading far above our assumed fair value, at an earnings multiple of 25.0. If its valuation contracts to 18 times earnings over the next five years, the stock would incur a -6.4% 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%	***104%***	***68.3%***

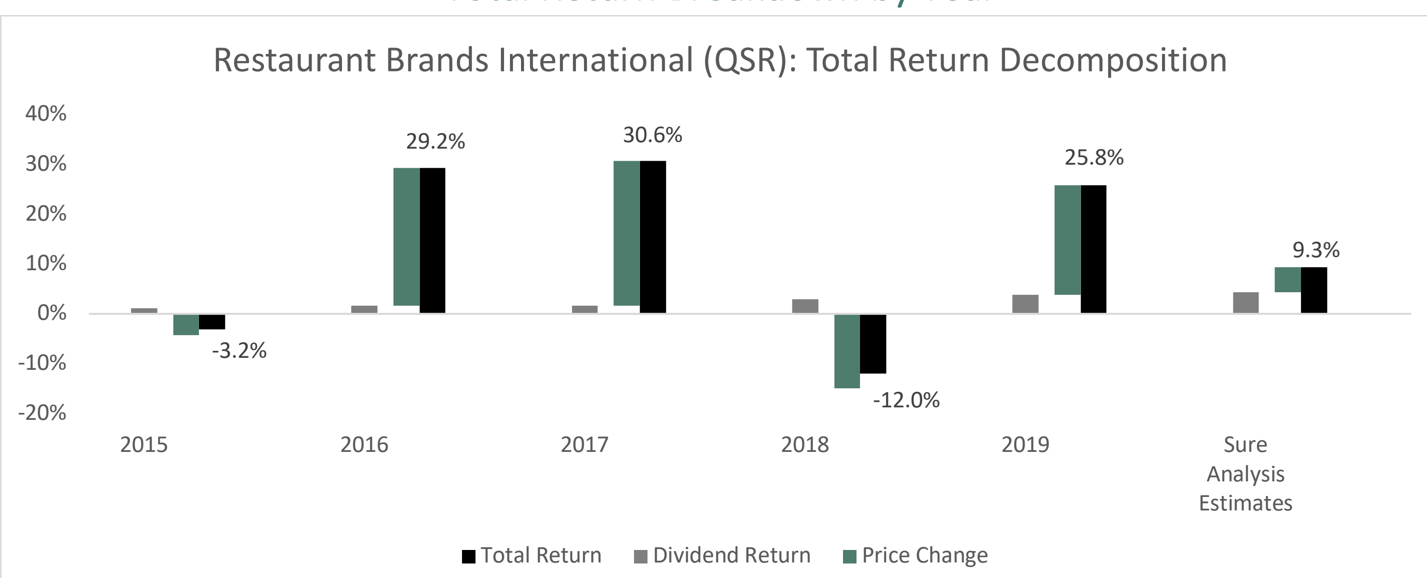
Restaurant Brands International operates in the business of quick service restaurants, where competition has been remarkably heated in recent years. Nevertheless, the company can be considered to have a meaningful competitive advantage; the strength of its brands.

Restaurant Brands International's operates with an appreciable amount of debt, as its net debt of $16.0 billion is about 13 times its normal annual earnings and its interest expense consumes 30% 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 -37% off its all-time high, primarily due to the pandemic, and has become somewhat attractive. It will be hurt by the pandemic this year, but we expect it to recover from next year, along with the global economy. We expect the stock to offer a 9.3% average annual return over the next five years. We thus maintain our hold rating, though the stock is on the verge of earning a buy rating. Investors should note that this stock almost always trades with a material premium and hence they should not expect to find it at a much cheaper valuation level.

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.