Restaurant Brands International (QSR)

Updated May 6th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	13.1%	**Market Cap:**	$24.9 B
Fair Value Price:	$56	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	6/21/2022
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	7/6/2022
Dividend Yield:	4.1%	**5 Year Price Target**	$86	**Years Of Dividend Growth:**	10
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Buy

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, 5,320; Burger King, 19,266; Popeye's Louisiana Kitchen, 3,771. Restaurant Brands International is headquartered in Oakville, Ontario, Canada and trades on the New York Stock Exchange with a market capitalization of $24.9 billion.

In early May, Restaurant Brands International reported (5/3/22) financial results for the first quarter of fiscal 2022. The company continued to recover from the pandemic, growing its sales by 14% over the prior year's quarter thanks to the strong momentum of Burger King and Tim Hortons. Digital sales grew to a new record level while the company opened a record number of new stores. Adjusted earnings-per-share grew 16%, from $0.55 to $0.64, and exceeded the analysts' consensus by $0.02.

Restaurant Brands International is trying to maximize the potential of its stores via drive-thru, take-out and delivery options. It will install digital menu boards in more than 10,000 drive-thru points in the U.S. and Canada by mid-2022. We expect the strong business momentum to remain in place for the foreseeable future but we have lowered our forecast for earnings-per-share in 2022 by 5%, from $3.10 to $2.95, due to the headwinds of cost inflation and staffing shortages. Due to these headwinds, the stock has plunged to a 52-week low, but we view them as temporary and immaterial from a long-term point of view.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.33	$0.65	$0.33	$0.78	$1.45	$2.10	$2.63	$2.72	$2.03	$2.82	***$2.95***	***$4.54***
DPS	$0.04	$0.24	$0.30	$0.44	$0.62	$0.78	$1.80	$2.00	$2.08	$2.12	***$2.16***	***$2.52***
Shares[1]	350.2	351.8	358.0	476.0	470.0	477.0	473.0	469.0	464.0	462.0	***455.0***	***440.0***

While same-store sales growth had markedly improved before the pandemic, this metric becoming increasingly volatile could be a concern as it 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 plans to increase the total store count from the current level of 28,357 to more than 40,000 over the next 8-10 years, with more than 1,000 new restaurants in the UK, India, Mexico and Saudi Arabia. Moreover, thanks to its digital shift amid the pandemic, we expect the company to emerge stronger from this crisis. 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 9% per year over the next five years.

[1] Share count is in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	46.2	30.0	85.8	49.8	28.9	32.9	22.1	24.8	27.2	22.4	***18.0***	***19.0***
Avg. Yld.	0.3%	1.2%	1.1%	1.1%	1.5%	1.3%	3.1%	3.0%	3.8%	3.4%	***4.1%***	***2.9%***

Restaurant Brands International's valuation has been irrationally high (average price-to-earnings ratio of 37.0) for most of its time since the iconic Burger King-Tim Horton's merger. We believe a fair value for Restaurant Brands is a price-to-earnings ratio of around 19. The stock is now trading at a 10-year low price-to-earnings ratio of 18.0 due to the impact of inflation on the valuation of growth stocks. If the stock trades at our assumed fair valuation level in five years, it will enjoy a 1.1% annualized gain in its returns. Investors should be aware that the stock almost always trades with a premium valuation thanks to its exciting growth prospects and the popularity of its restaurants.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	24.0%	25.9%	16.0%	68.4%	73.5%	102%	75.2%	***73.2%***	***55.4%***

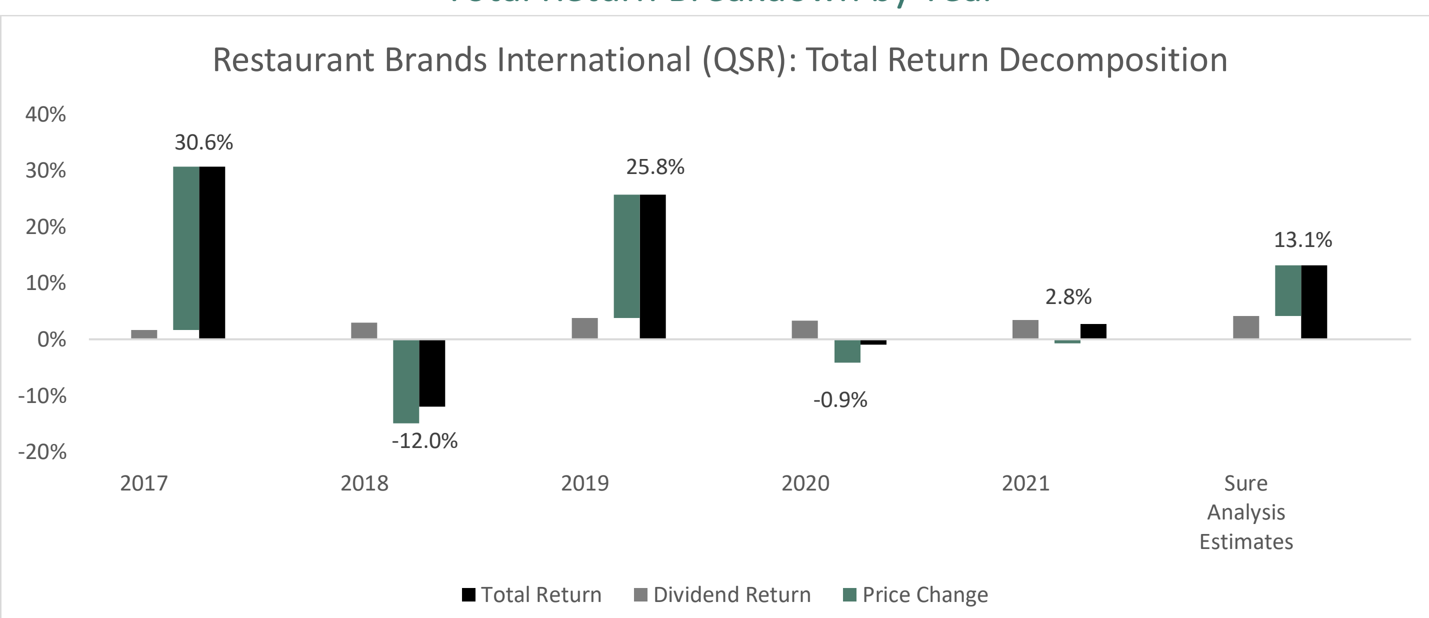
Restaurant Brands International operates in the business of quick service restaurants, where competition has been remarkably heated in recent years. However, it has a meaningful competitive advantage: the strength of its brands.

Restaurant Brands International operates with an appreciable amount of debt, as its net debt of $17.8 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 adjusted to the pandemic by focusing on its digital channels and we believe it will emerge stronger from this crisis. High inflation currently exerts pressure both on the margins of the company and the valuation of the stock but we consider this headwind temporary. We view the stock as attractively valued and expect it to offer a 13.1% average annual return over the next five years. We thus maintain our buy rating.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1971	1146	1199	4052	4146	4576	5357	5603	4,968	4,501
Gross Profit	819	799	863	1740	1964	2248	3117	3250	2,830	1,881
Gross Margin	41.5%	69.7%	72.0%	42.9%	47.4%	49.1%	58.2%	58.0%	57.0%	41.8%
SG&A Exp.	273	205	206	304	281	393	1214	1208	1,229	383
D&A Exp.	114	66	69	182	172	181	180	185	189	158
Operating Profit	516	577	632	1420	1662	1832	1895	2033	1,582	1,482
Operating Margin	26.2%	50.3%	52.7%	35.1%	40.1%	40.0%	35.4%	36.3%	31.8%	32.9%
Net Profit	118	234	161	375	616	649	612	643	486	657
Net Margin	6.0%	20.4%	13.5%	9.3%	14.8%	14.2%	11.4%	11.5%	9.8%	14.6%
Free Cash Flow	154	300	228	1090	1235	1345	1079	1414	804	1,271
Income Tax	42	89	15	162	244	-134	238	341	66	86

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	5829	21343	18411	19125	21224	20141	22360	22,777	18,232
Cash & Equivalents	---	787	1803	758	1460	1073	913	1533	1,560	853
Accounts Receivable	---	191	448	422	404	456	452	527	536	429
Inventories	---	1	98	81	72	78	75	84	96	75
Goodwill & Int. Ass.	---	3426	15681	13722	13903	16845	15949	16214	16,440	13,665
Total Liabilities	---	4312	13707	12201	12339	16663	16523	18101	19,056	15,210
Accounts Payable	---	31	223	362	370	413	513	644	464	482
Long-Term Debt	---	2962	9955	8518	8504	11879	11914	11860	12,508	10,179
Shareholder's Equity	---	1516	1878	1337	1703	2226	1611	2490	2,167	1,754
D/E Ratio	---	1.95	1.92	1.84	1.70	5.34	7.40	4.76	5.77	5.80

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	1.2%	1.9%	3.3%	3.2%	3.0%	3.0%	2.2%	3.6%
Return on Equity	---	---	9.5%	23.3%	40.5%	33.0%	31.9%	31.4%	20.9%	38.1%
ROIC	---	---	1.5%	2.3%	4.1%	4.1%	3.8%	4.1%	3.0%	5.1%
Shares Out.	350.2	351.8	358.0	476.0	470.0	477.0	473.0	469.0	464.0	462.0
Revenue/Share	9.75	5.67	3.35	8.51	8.82	9.59	11.33	11.95	10.62	9.70
FCF/Share	0.76	1.48	0.64	2.29	2.63	2.82	2.28	3.01	1.72	2.74

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