



# Restaurant Brands International (QSR)

Updated August 18<sup>th</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

|                             |      |                                            |       |                                  |           |
|-----------------------------|------|--------------------------------------------|-------|----------------------------------|-----------|
| <b>Current Price:</b>       | \$60 | <b>5 Year CAGR Estimate:</b>               | 11.0% | <b>Market Cap:</b>               | \$27.1 B  |
| <b>Fair Value Price:</b>    | \$58 | <b>5 Year Growth Estimate:</b>             | 9.0%  | <b>Ex-Dividend Date:</b>         | 9/20/2022 |
| <b>% Fair Value:</b>        | 104% | <b>5 Year Valuation Multiple Estimate:</b> | -0.7% | <b>Dividend Payment Date:</b>    | 10/5/2022 |
| <b>Dividend Yield:</b>      | 3.6% | <b>5 Year Price Target</b>                 | \$89  | <b>Years Of Dividend Growth:</b> | 10        |
| <b>Dividend Risk Score:</b> | F    | <b>Retirement Suitability Score:</b>       | D     | <b>Rating:</b>                   | 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, 5,352; Burger King, 19,311; Popeye's Louisiana Kitchen, 3,851. Restaurant Brands International is headquartered in Oakville, Ontario, Canada and trades on the New York Stock Exchange with a market capitalization of \$27.1 billion.

In early August, Restaurant Brands International reported (8/4/22) financial results for the second 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 accelerated momentum of Burger King and Tim Hortons. Digital sales grew to a new record level and now comprise 33% of total sales. Adjusted earnings-per-share grew 6.5%, from \$0.77 to \$0.82, and exceeded the analysts' consensus by \$0.09. Given the accelerated momentum, we have raised our earnings-per-share forecast for 2022 from \$2.95 to \$3.05. Restaurant Brands International is trying to maximize the potential of its stores via drive-thru, take-out and delivery options. It has installed digital menu boards in more than 10,000 drive-thru points in the U.S. and Canada.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$0.33 | \$0.65 | \$0.33 | \$0.78 | \$1.45 | \$2.10 | \$2.63 | \$2.72 | \$2.03 | \$2.82 | <b>\$3.05</b> | <b>\$4.69</b> |
| <b>DPS</b>                | \$0.04 | \$0.24 | \$0.30 | \$0.44 | \$0.62 | \$0.78 | \$1.80 | \$2.00 | \$2.08 | \$2.12 | <b>\$2.16</b> | <b>\$2.52</b> |
| <b>Shares<sup>1</sup></b> | 350.2  | 351.8  | 358.0  | 476.0  | 470.0  | 477.0  | 473.0  | 469.0  | 464.0  | 462.0  | <b>455.0</b>  | <b>440.0</b>  |

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 28,514 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.

## Valuation Analysis

| Year             | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now         | 2027        |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/E</b>  | 46.2 | 30.0 | 85.8 | 49.8 | 28.9 | 32.9 | 22.1 | 24.8 | 27.2 | 22.4 | <b>19.7</b> | <b>19.0</b> |
| <b>Avg. Yld.</b> | 0.3% | 1.2% | 1.1% | 1.1% | 1.5% | 1.3% | 3.1% | 3.0% | 3.8% | 3.4% | <b>3.6%</b> | <b>2.8%</b> |

<sup>1</sup> 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 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 price-to-earnings ratio of 19.7. If the stock trades at our assumed fair valuation level in five years, it will incur a modest -0.7% annualized drag 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% | <b>70.8%</b> | <b>53.6%</b> |

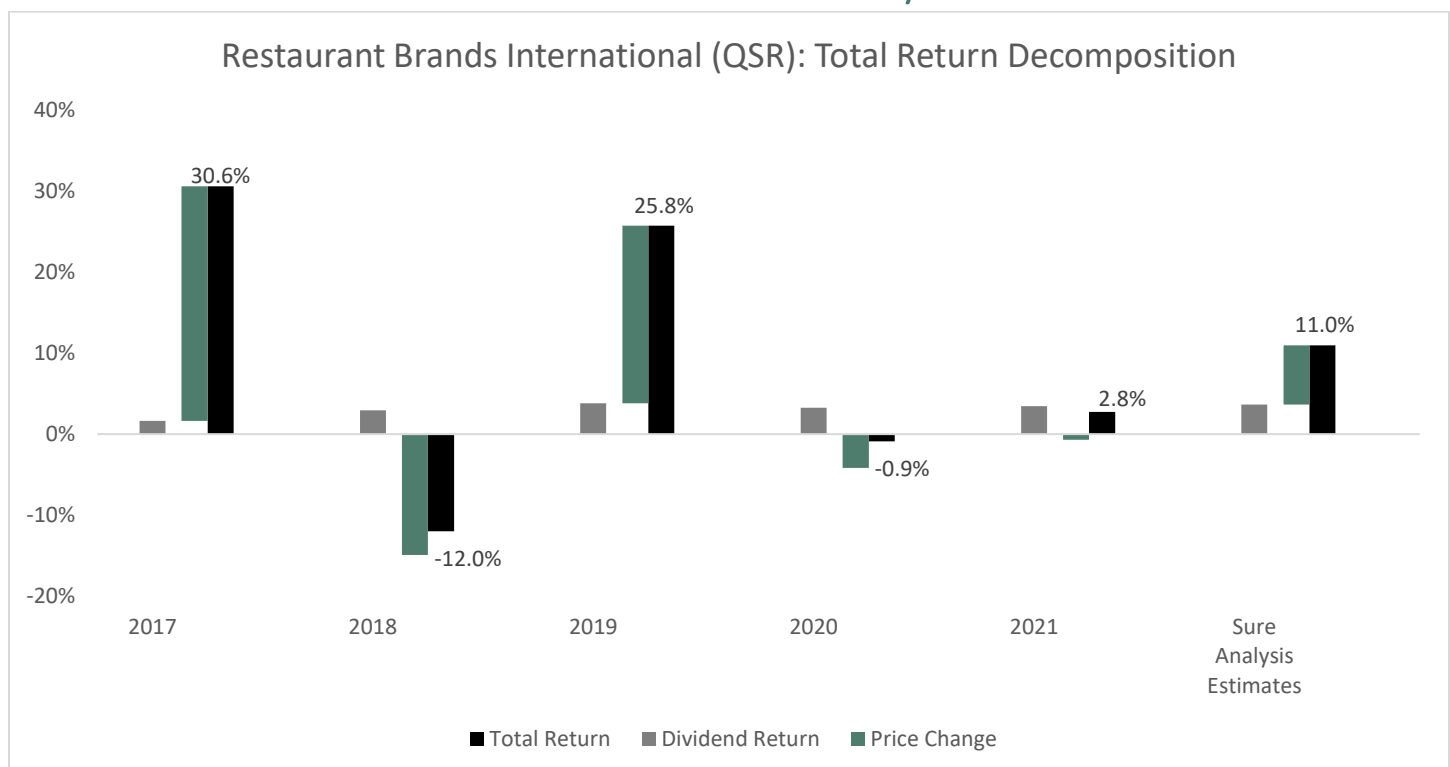
Restaurant Brands International operates in the business of quick service restaurants, where competition has been remarkably heated in recent years. However, it has a meaningful competitive advantage: the strength of its brands.

Restaurant Brands International operates with an appreciable amount of debt, as its net debt of \$17.4 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. The stock has rallied 13% since our last report but it remains attractive. We expect it to offer an 11.0% average annual return over the next five years thanks to 9.0% earnings growth and its 3.6% dividend, partly offset by a -0.7% valuation headwind. We thus maintain our buy rating.

## Total Return Breakdown by Year



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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.

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