Restaurant Brands International (QSR)

Updated February 15th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$30.0 B
Fair Value Price:	$59	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	3/21/2023
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date:**	4/5/2023
Dividend Yield:	3.3%	**5 Year Price Target**	$91	**Years Of Dividend Growth:**	11
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

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, 5,600; Burger King, 19,789; Popeye's Louisiana Kitchen, 4,091. Restaurant Brands International is headquartered in Oakville, Ontario, Canada and trades on the New York Stock Exchange with a market capitalization of $30.0 billion.

In mid-February, Restaurant Brands International reported (2/14/23) financial results for the fourth quarter of fiscal 2022. It continued to recover from the pandemic, growing its sales by 12% over the prior year's quarter thanks to accelerated momentum of all the restaurant chains. Digital sales grew 30% and now comprise more than one-third of total sales. On the other hand, adjusted earnings-per-share dipped -3%, from $0.74 to $0.72, and missed the analysts' consensus by $0.02, mostly due to huge advertising expenses. It was the first earnings miss for the company in two years. Given the aggressive advertising strategy of the company, we expect essentially flat earnings this year but significant growth in the upcoming years.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.65	$0.33	$0.78	$1.45	$2.10	$2.63	$2.72	$2.03	$2.82	$3.14	***$3.12***	***$4.80***
DPS	$0.24	$0.30	$0.44	$0.62	$0.78	$1.80	$2.00	$2.08	$2.12	$2.16	***$2.20***	***$2.52***
Shares[1]	351.8	358.0	476.0	470.0	477.0	473.0	469.0	464.0	462.0	455.0	***450.0***	***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 29,480 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	30.0	85.8	49.8	28.9	32.9	22.1	24.8	27.2	22.4	18.2	***21.5***	***19.0***
Avg. Yld.	1.2%	1.1%	1.1%	1.5%	1.3%	3.1%	3.0%	3.8%	3.4%	3.8%	***3.3%***	***2.8%***

[1] Share count is in millions.

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Restaurant Brands International's valuation has been irrationally high (average price-to-earnings ratio of 34.2) 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 21.5. If the stock trades at our assumed fair valuation level in five years, it will incur a -2.4% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	24.0%	25.9%	16.0%	68.4%	73.5%	102%	75.2%	68.8%	***70.5%***	***52.5%***

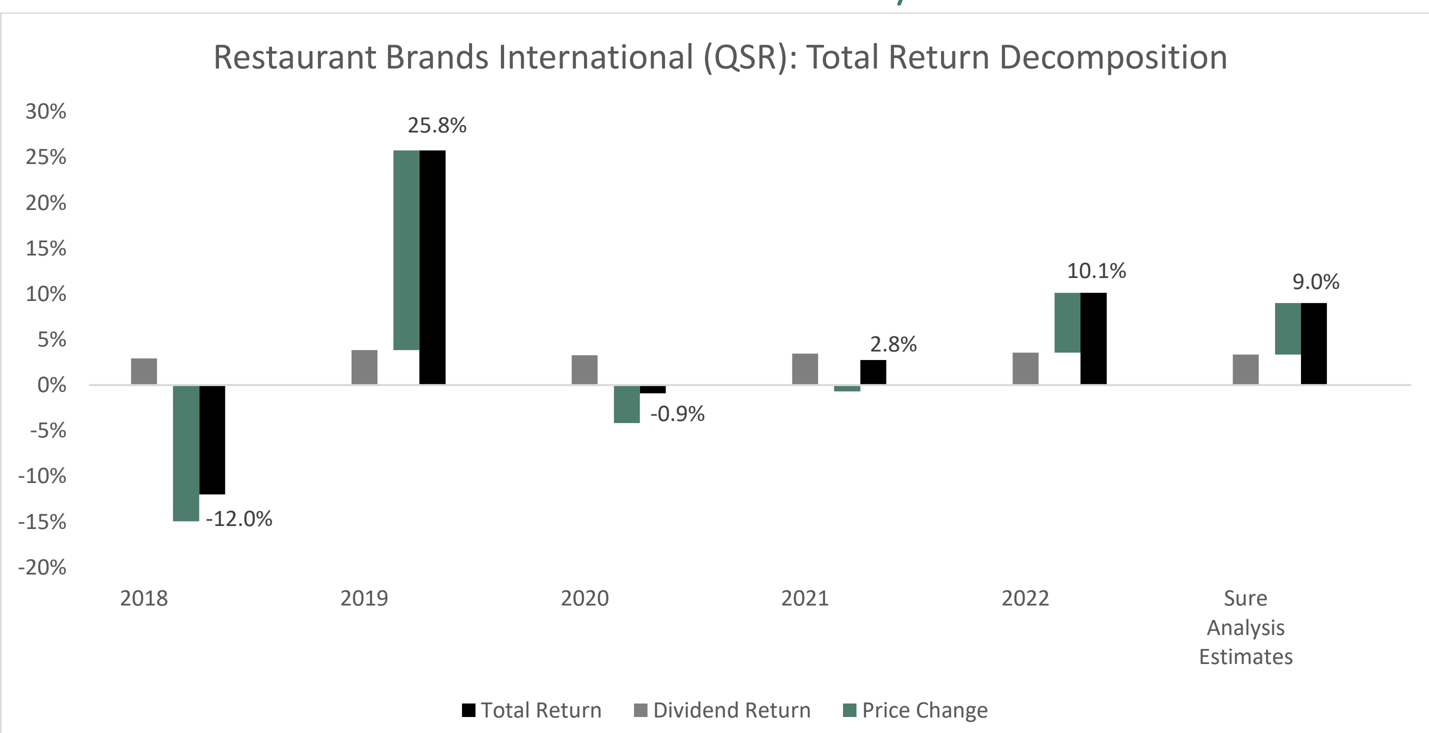
Restaurant Brands International operates in the business of quick service restaurants, where competition has been remarkably heated in recent years. However, it has a meaningful competitive advantage: the strength of its brands.

Restaurant Brands International operates with an appreciable amount of debt, as its net debt of $17.7 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 adjusted to the pandemic by focusing on its digital channels and has emerged 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 outperformed the S&P 500 by a wide margin over the last 12 months (+17% vs. -6%) but it remains attractive. We expect it to offer a 9.0% average annual return over the next five years thanks to 9.0% earnings growth and its 3.3% dividend, partly offset by a -2.4% valuation headwind. We rate the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1146	1199	4052	4146	4576	5357	5603	4,968	4,501	6,505
Gross Profit	799	863	1740	1964	2248	3117	3250	2,830	1,881	2,598
Gross Margin	69.7%	72.0%	42.9%	47.4%	49.1%	58.2%	58.0%	57.0%	41.8%	39.9%
SG&A Exp.	205	206	304	281	393	1214	1208	1,229	383	536
D&A Exp.	66	69	182	172	181	180	185	189	158	190
Operating Profit	577	632	1420	1662	1832	1895	2033	1,582	1,482	2,023
Operating Margin	50.3%	52.7%	35.1%	40.1%	40.0%	35.4%	36.3%	31.8%	32.9%	31.1%
Net Profit	234	161	375	616	649	612	643	486	657	1,008
Net Margin	20.4%	13.5%	9.3%	14.8%	14.2%	11.4%	11.5%	9.8%	14.6%	15.5%
Free Cash Flow	300	228	1090	1235	1345	1079	1414	804	1,271	1,390
Income Tax	89	15	162	244	-134	238	341	66	86	-117

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5829	21343	18411	19125	21224	20141	22360	22,777	18,232	22,746
Cash & Equivalents	787	1803	758	1460	1073	913	1533	1,560	853	1,178
Accounts Receivable	191	448	422	404	456	452	527	536	429	614
Inventories	1	98	81	72	78	75	84	96	75	133
Goodwill & Int. Ass.	3426	15681	13722	13903	16845	15949	16214	16,440	13,665	16,679
Total Liabilities	4312	13707	12201	12339	16663	16523	18101	19,056	15,210	18,478
Accounts Payable	31	223	362	370	413	513	644	464	482	758
Long-Term Debt	2962	9955	8518	8504	11879	11914	11860	12,508	10,179	12,966
Shareholder's Equity	1516	1878	1337	1703	2226	1611	2490	2,167	1,754	2,499
D/E Ratio	1.95	1.92	1.84	1.70	5.34	7.40	4.76	5.77	5.80	5.19

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	1.2%	1.9%	3.3%	3.2%	3.0%	3.0%	2.2%	3.6%	4.4%
Return on Equity	---	9.5%	23.3%	40.5%	33.0%	31.9%	31.4%	20.9%	38.1%	42.6%
ROIC	---	1.5%	2.3%	4.1%	4.1%	3.8%	4.1%	3.0%	5.1%	5.9%
Shares Out.	351.8	358.0	476.0	470.0	477.0	473.0	469.0	464.0	462.0	455.0
Revenue/Share	5.67	3.35	8.51	8.82	9.59	11.33	11.95	10.62	9.70	14.30
FCF/Share	1.48	0.64	2.29	2.63	2.82	2.28	3.01	1.72	2.74	3.05

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