Restaurant Brands International (QSR)

Updated November 6th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$31.2 B
Fair Value Price:	$65	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	12/20/2024
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	1/3/2025
Dividend Yield:	3.4%	**5 Year Price Target**	$99	**Years Of Dividend Growth:**	12
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. Restaurant Brands International is headquartered in Oakville, Ontario, Canada and trades on the New York Stock Exchange with a market capitalization of $31.2 billion.

In early November, Restaurant Brands International reported (11/5/24) financial results for the third quarter of fiscal 2024. Sales grew 3% over the prior year's quarter thanks to sustained momentum of Tim Horton's but same-store sales grew only 0.3% due to deceleration of Burger King and Popeye's. The store count grew 3.8%. Adjusted earnings-per-share grew 3%, from $0.90 to $0.93, missing the analysts' consensus by $0.02. The company has beaten the analysts' estimates in 12 of the last 15 quarters. Due to the aggressive advertising strategy of the company and high cost inflation, we still expect modest growth of earnings this year but significant growth in the upcoming years. We also expect Burger King to return to growth mode next year thanks to its turnaround plan, which is called "Reclaim the Flame".

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.33	$0.78	$1.45	$2.10	$2.63	$2.72	$2.03	$2.82	$3.14	$3.24	***$3.40***	***$5.23***
DPS	$0.30	$0.44	$0.62	$0.78	$1.80	$2.00	$2.08	$2.12	$2.16	$2.20	***$2.32***	***$2.66***
Shares[1]	358.0	476.0	470.0	477.0	473.0	469.0	464.0	462.0	455.0	453.0	***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 and thus it recently provided a strong 5-year outlook. Management plans to increase the total store count from the current level of 31,525 to nearly 40,000 by the end of 2028, with more than 1,000 new restaurants in the UK, India, Mexico and Saudi Arabia. Moreover, thanks to its digital shift amid the pandemic, the company has emerged stronger from this crisis. Management has provided guidance for at least 8% average annual growth of operating income over the next five years. Thanks to the strong growth potential and the operational expertise of 3G Capital (the majority owners of QSR) and a potential 1% benefit from buybacks and lower interest expense, we expect the company to grow its earnings-per-share by 9% per year over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	85.8	49.8	28.9	32.9	22.1	24.8	27.2	22.4	18.2	21.5	***20.0***	***19.0***
Avg. Yld.	1.1%	1.1%	1.5%	1.3%	3.1%	3.0%	3.8%	3.4%	3.8%	3.2%	***3.4%***	***2.7%***

[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 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 20.0. If the stock trades at our assumed fair valuation level in five years, it will incur a -1.0% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	24.0%	25.9%	16.0%	68.4%	73.5%	102%	75.2%	68.8%	67.9%	***68.2%***	***50.8%***

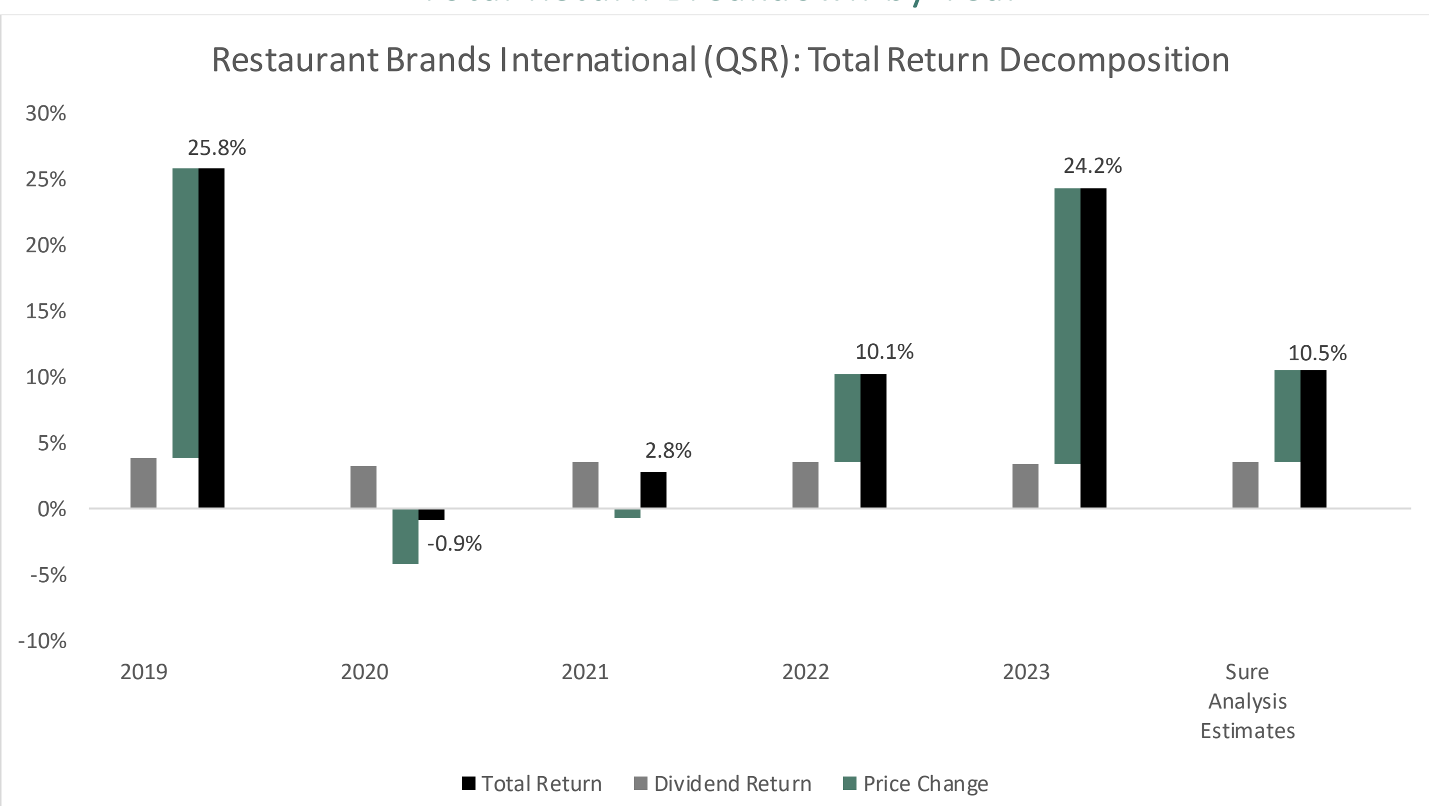
Restaurant Brands International operates in the business of quick service restaurants, where competition has been remarkably heated in recent years. However, it has a meaningful competitive advantage: the strength of its brands.

Restaurant Brands International operates with an appreciable amount of debt, as its net debt of $18.1 billion is about 12 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 adjusted to the pandemic by focusing on its digital channels and has emerged stronger from this crisis. High cost inflation and increased advertising expenses currently exert pressure on the margins of the company but we consider these headwinds temporary. The stock can offer a 10.5% average annual return over the next five years thanks to 9.0% earnings growth and its 3.4% dividend, partly offset by a -1.0% valuation headwind. It thus receives a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1199	4052	4146	4576	5357	5603	4,968	4,501	6,505	7,022
Gross Profit	863	1740	1964	2248	3117	3250	2,830	1,881	2,598	2,802
Gross Margin	72.0%	42.9%	47.4%	49.1%	58.2%	58.0%	57.0%	41.8%	39.9%	39.9%
SG&A Exp.	206	304	281	393	1214	1208	1,229	383	536	647
D&A Exp.	69	182	172	181	180	185	189	158	190	191
Operating Profit	632	1420	1662	1832	1895	2033	1,582	1,482	2,023	2,137
Operating Margin	52.7%	35.1%	40.1%	40.0%	35.4%	36.3%	31.8%	32.9%	31.1%	30.4%
Net Profit	161	375	616	649	612	643	486	657	1,008	1,190
Net Margin	13.5%	9.3%	14.8%	14.2%	11.4%	11.5%	9.8%	14.6%	15.5%	16.9%
Free Cash Flow	228	1090	1235	1345	1079	1414	804	1,271	1,390	1,203
Income Tax	15	162	244	-134	238	341	66	86	-117	-265

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	21343	18411	19125	21224	20141	22360	22,777	18,232	22,746	23,391
Cash & Equivalents	1803	758	1460	1073	913	1533	1,560	853	1,178	1,139
Accounts Receivable	448	422	404	456	452	527	536	429	614	749
Inventories	98	81	72	78	75	84	96	75	133	166
Goodwill & Int. Ass.	15681	13722	13903	16845	15949	16214	16,440	13,665	16,679	16,882
Total Liabilities	13707	12201	12339	16663	16523	18101	19,056	15,210	18,478	18,661
Accounts Payable	223	362	370	413	513	644	464	482	758	790
Long-Term Debt	9955	8518	8504	11879	11914	11860	12,508	10,179	12,966	12,955
Shareholder's Equity	1878	1337	1703	2226	1611	2490	2,167	1,754	2,499	2,866
D/E Ratio	1.92	1.84	1.70	5.34	7.40	4.76	5.77	5.80	5.19	4.52

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	1.9%	3.3%	3.2%	3.0%	3.0%	2.2%	3.6%	4.4%	5.2%
Return on Equity	9.5%	23.3%	40.5%	33.0%	31.9%	31.4%	20.9%	38.1%	42.6%	26.5%
ROIC	1.5%	2.3%	4.1%	4.1%	3.8%	4.1%	3.0%	5.1%	5.9%	6.8%
Shares Out.	358.0	476.0	470.0	477.0	473.0	469.0	464.0	462.0	455.0	456.0
Revenue/Share	3.35	8.51	8.82	9.59	11.33	11.95	10.62	9.70	14.30	15.40
FCF/Share	0.64	2.29	2.63	2.82	2.28	3.01	1.72	2.74	3.05	2.64

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