Restaurant Brands International (QSR)

Updated February 14th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$66	**5 Year CAGR Estimate:**	12.1%	**Market Cap:**	$29.7 B
Fair Value Price:	$70	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	3/21/2025
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	4/4/2025
Dividend Yield:	3.8%	**5 Year Price Target**	$103	**Years Of Dividend Growth:**	13
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 $29.7 billion.

In mid-February, Restaurant Brands International reported (2/13/25) results for the fourth quarter of fiscal 2024. Sales grew 6% over the prior year's quarter, mostly thanks to strong growth in international markets. Same-store sales grew 2.5%. The store count grew 3.4%. Adjusted earnings-per-share grew 8%, from $0.75 to $0.81, exceeding the analysts' consensus by $0.02. The company has beaten the analysts' estimates in 13 of the last 16 quarters. Due to the aggressive advertising strategy of the company and high cost inflation, earnings grew only 3% last year but management provided guidance for 8% growth of operating income in 2025. We expect the company to exceed its guidance, given its record of beating estimates. Given also our expectations for lower interest expense, we expect 11% earnings growth in 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.78	$1.45	$2.10	$2.63	$2.72	$2.03	$2.82	$3.14	$3.24	$3.34	***$3.70***	***$5.44***
DPS	$0.44	$0.62	$0.78	$1.80	$2.00	$2.08	$2.12	$2.16	$2.20	$2.32	***$2.48***	***$2.84***
Shares[1]	476.0	470.0	477.0	473.0	469.0	464.0	462.0	455.0	453.0	455.0	***455.0***	***445.0***

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 32,125 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), we expect the company to grow its earnings-per-share by 8% per year over the next five years. This is slightly higher than the 6.9% average annual growth rate over the last 7 years but in line with the guidance of management.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	49.8	28.9	32.9	22.1	24.8	27.2	22.4	18.2	21.5	21.5	***17.8***	***19.0***
Avg. Yld.	1.1%	1.5%	1.3%	3.1%	3.0%	3.8%	3.4%	3.8%	3.2%	3.2%	***3.8%***	***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 26.9) 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 17.8. If the stock trades at our assumed fair valuation level in five years, it will enjoy a 1.3% 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	24.0%	25.9%	16.0%	68.4%	73.5%	102%	75.2%	68.8%	67.9%	69.5%	***67.0%***	***52.2%***

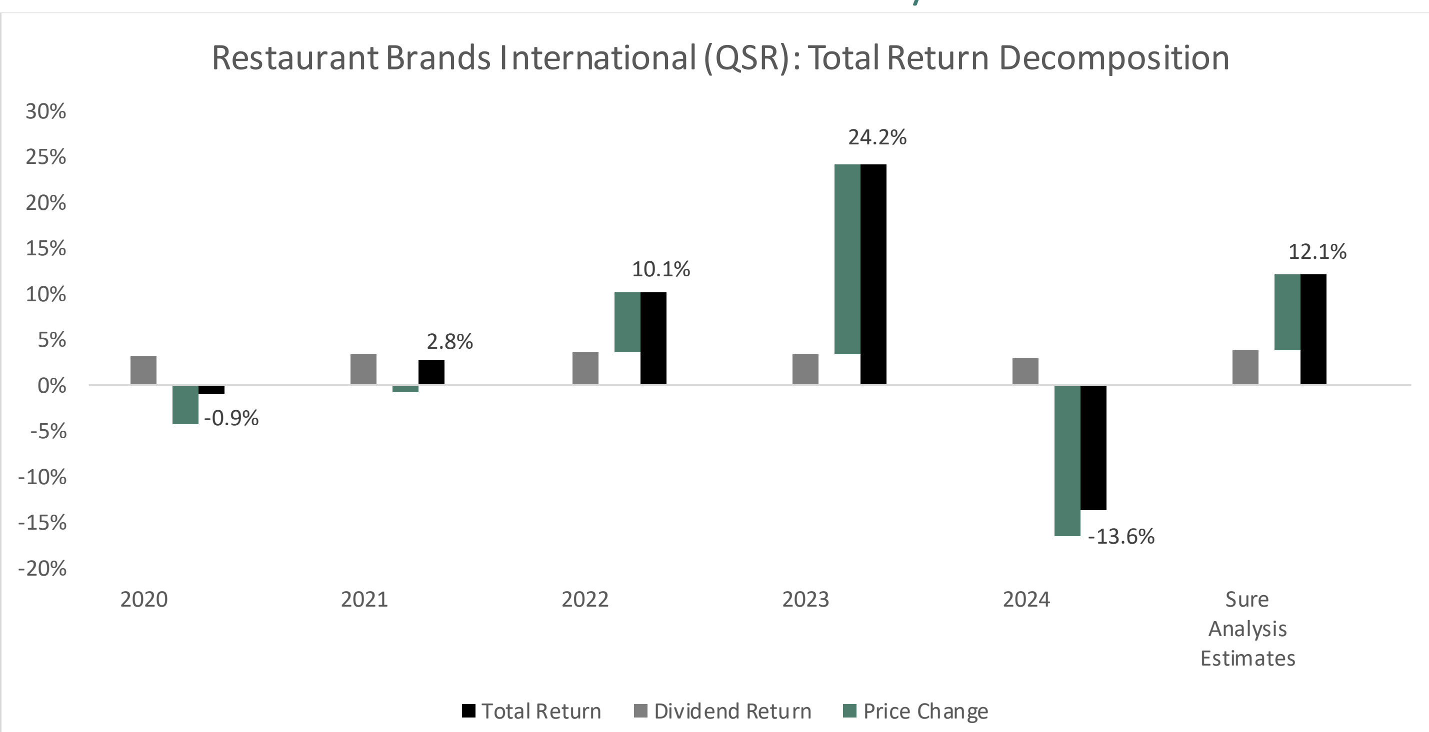
Restaurant Brands International operates in the business of quick service restaurants, where competition has been remarkably heated in recent years. However, it has a meaningful competitive advantage: the strength of its brands.

Restaurant Brands International operates with an appreciable amount of debt, as its net debt of $17.8 billion is about 12 times its annual earnings and its interest expense consumes 24% 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 12.1% average annual return over the next five years thanks to 8.0% earnings growth, its 3.8% dividend and a 1.3% valuation tailwind. It thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	4052	4146	4576	5357	5603	4,968	4,501	6,505	7,022	8,406
Gross Profit	1740	1964	2248	3117	3250	2,830	1,881	2,598	2,802	3,024
Gross Margin	42.9%	47.4%	49.1%	58.2%	58.0%	57.0%	41.8%	39.9%	39.9%	36.0%
SG&A Exp.	304	281	393	1214	1208	1,229	383	536	647	733
D&A Exp.	182	172	181	180	185	189	158	190	191	264
Operating Profit	1420	1662	1832	1895	2033	1,582	1,482	2,023	2,137	2,350
Operating Margin	35.1%	40.1%	40.0%	35.4%	36.3%	31.8%	32.9%	31.1%	30.4%	28.0%
Net Profit	375	616	649	612	643	486	657	1,008	1,190	1,021
Net Margin	9.3%	14.8%	14.2%	11.4%	11.5%	9.8%	14.6%	15.5%	16.9%	12.1%
Free Cash Flow	1090	1235	1345	1079	1414	804	1,271	1,390	1,203	1,302
Income Tax	162	244	-134	238	341	66	86	-117	-265	364

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	18411	19125	21224	20141	22360	22,777	18,232	22,746	23,391	24,632
Cash & Equivalents	758	1460	1073	913	1533	1,560	853	1,178	1,139	1,334
Accounts Receivable	422	404	456	452	527	536	429	614	749	698
Inventories	81	72	78	75	84	96	75	133	166	142
Goodwill & Int. Ass.	13722	13903	16845	15949	16214	16,440	13,665	16,679	16,882	16,908
Total Liabilities	12201	12339	16663	16523	18101	19,056	15,210	18,478	18,661	19,789
Accounts Payable	362	370	413	513	644	464	482	758	790	765
Long-Term Debt	8518	8504	11879	11914	11860	12,508	10,179	12,966	12,955	13,677
Shareholder's Equity	1337	1703	2226	1611	2490	2,167	1,754	2,499	2,866	3,110
D/E Ratio	1.84	1.70	5.34	7.40	4.76	5.77	5.80	5.19	4.52	4.40

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.9%	3.3%	3.2%	3.0%	3.0%	2.2%	3.6%	4.4%	5.2%	4.3%
Return on Equity	23.3%	40.5%	33.0%	31.9%	31.4%	20.9%	38.1%	42.6%	26.5%	21.3%
ROIC	2.3%	4.1%	4.1%	3.8%	4.1%	3.0%	5.1%	5.9%	6.8%	5.6%
Shares Out.	476.0	470.0	477.0	473.0	469.0	464.0	462.0	455.0	456.0	454.0
Revenue/Share	8.51	8.82	9.59	11.33	11.95	10.62	9.70	14.30	15.40	18.52
FCF/Share	2.29	2.63	2.82	2.28	3.01	1.72	2.74	3.05	2.64	2.87

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