Should You Order Some Restaurant Brands International Inc. Stock With Your Double-Double?

Description

On Monday, investors got a first taste of what Tim Hortons and Burger King can accomplish as a combined company. So far, this taste is even better than Burger King's crispy chicken sandwich.

For the first quarter of 2015 **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) reported adjusted earnings of US$0.18 per share, beating analyst estimates of US$0.15. In response, the company's U.S.-listed shares rose by as much as 4%.

So, how exactly did RBI achieve such great results? More importantly, should you buy the company's shares?

No bad news

RBI's numbers were fantastic across the board, which should be very encouraging to shareholders. At Burger King, comparable sales rose by 4.6% over the prior year, the best result in nearly seven years. Over at Tim Hortons, comparable sales rose by an impressive 5.3%.

In addition, RBI added 68 new restaurants, further boosting sales growth. And with increased sales came increased margins; as a result, adjusted EBITDA grew by 18% on an organic basis.

CEO Daniel Schwartz seemed very encouraged: "We are off to a strong start in 2015, having achieved one of our best quarters of comparable sales growth in years for both of our iconic brands…We have established a solid foundation in our first full quarter as RBI and will look to build on this momentum throughout the rest of the year."

Best of all, the growth stories for both Tim Hortons and Burger King remain well intact. Should you be a part of this story?

A high-quality but expensive stock

There are a lot of reasons to like RBI stock. The company has some very powerful brands, along with plenty of growth opportunities worldwide. And because the company uses a franchise model, returns are high.

Best of all, the track record of its owners is stellar. Chief among them is Brazilian private equity giant 3G Capital, which owns 51% of the company. 3G is known as a ferocious cost-cutter and has dramatically improved the profitability of some major consumer brands. **Berkshire Hathaway** (led by Warren Buffett) and Pershing Square (led by Bill Ackman) also own big stakes.

Unfortunately, RBI is an expensive stock by practically any standard. To illustrate, analysts expect the company to make US$0.95 and US$1.18 per share this year and next, respectively. That’s not much for a US$40+ stock. Clearly the company’s expansion will have to go smoothly; otherwise, investors should embrace themselves for losses.

So, should you hold the stock? Well, that depends what kind of investor you are. If you want a diversified portfolio of high-quality Canadian stocks, RBI is one of your best options. If you are looking for a few serious mispricings across the globe, there are likely much better options.

CATEGORY

1. Investing

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1. Editor's Choice

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