Should You Buy Restaurant Brands International Inc. After its Strong Q3 Report?

Description

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR), one of the world's largest quick-service restaurant companies, announced third-quarter earnings results on the morning of October 27, and its stock responded by rising over 4% in the day's trading session. Let's take a closer look at the quarterly results to determine if this could be the start of a sustained rally higher, and if we should consider initiating positions today.

Breaking down the rally-enabling results

Here's a summary of Restaurant Brands's third-quarter earnings results compared with what analysts had expected and its pro-forma results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Earnings Per Share	$0.34	$0.28	$0.27
Revenue	$1.02 billion	$1.04 billion	$1.11 billion

Source: Thomson Reuters Corp.

Restaurant Brands's adjusted earnings per share increased 25.9% and its revenue decreased 8.4% compared with its pro-forma results in the third quarter of fiscal 2014. Its very strong earnings-per-share growth can be attributed to its adjusted net income increasing 26.8% to $162.7 million, helped by its total costs of sales decreasing 13.1% to $446.6 million.

Its weak revenue performance can be attributed entirely to the negative impact of foreign exchange on Tim Hortons's results, which led to its total revenues decreasing 11.6% to $737.7 million in this segment, and this could not be offset by a 1.1% increase to $282 million in its Burger King segment. Excluding the negative impact of foreign exchange, Tim Hortons's revenues increased 6.3%.

Here's a quick breakdown of some other notable statistics from the report compared with the year-ago period:

1. System-wide sales increased 1.6% to $4.52 billion at Burger King
2. System-wide sales decreased 8.1% to $1.6 billion at Tim Hortons
3. On a constant currency basis, system-wide sales increased 11.2% at Burger King and 8.2% at Tim Hortons
4. On a constant currency basis, comparable-store sales increased 6.2% at Burger King and 5.3% at Tim Hortons
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 6.4% to $440.7 million
6. Adjusted EBITDA increased 1.2% to $196.7 million at Burger King and 11% to $244 million at Tim Hortons
7. Opened 141 net new Burger King Restaurants during the quarter, bringing its total count to 14,669
8. Opened 69 net new Tim Hortons restaurants during the quarter, bringing its total count to 4,845

Restaurant Brands also declared a dividend of $0.13 per share for the fourth quarter, and it will be paid out on January 5 to shareholders of record at the close on business on November 25.

Should you buy in to or avoid the rally?

Excluding the negative impact of foreign exchange, it was a great quarter for Restaurant Brands, so I think its stock responded correctly by moving higher.

I think this could be the start of a sustained rally back towards its 52-week high, which it still sits more than 12% below, because its stock still trades at inexpensive forward valuations. I also think it represents one of the top long-term growth plays in the quick-service restaurant industry today, because its brands have ample room for expansion worldwide.

Restaurant Brands's stock trades at a 38 times fiscal 2015's estimated earnings per share of $1.05 and 31.7 times fiscal 2016's estimated earnings per share of $1.26, both of which are inexpensive given its long-term growth rate of 11.7% and its industry average multiple of 42.9. I think the company's stock could consistently command a fair multiple of at least 40, which would place its shares upwards $50 by the conclusion of fiscal 2016, representing upside of more than 25% from today's levels.

There is still ample room for the company's brands to expand both domestically and internationally. I think both Burger King and Tim Horton's could one day have store counts that rival that of the industry leader, **McDonald's Corporation**, which has over 36,000 locations today. I also think Restaurant Brands could achieve this expansion without ever running in to issues related to market densification.

With all of the information above in mind, I think Restaurant Brands International represents one of the best investment opportunities in the restaurant industry today. All Foolish investors should strongly consider beginning to scale in to long-term positions over the next couple of weeks.

CATEGORY

1. Investing

TICKERS GLOBAL

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