



Invest Like Warren Buffett With Restaurant Brands International Inc.

Description

It goes without saying, but I'll say it anyway: following Warren Buffett's stock picks over the years would have turned out pretty well for the average investor.

There's a simple way to do that, of course. All you need to do is buy **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) shares and tuck them away for a decade or three. Buffett won't be around forever, but at this point all the heavy lifting with Berkshire is done. Whoever takes over from the Oracle of Omaha just has to make sure they don't screw it all up.

There might be a better way, however. According to evidence presented by Meb Faber Research, investors who bought Berkshire's 10 largest holdings would have outperformed buying Berkshire's stock, especially since Berkshire shares bottomed in 2008.

Faber's research goes back to 1999, showing a clear outperformance compared to the S&P 500 whether investors bought Berkshire or the company's top 10 holdings individually. The top 10 holdings did even better, but it's not like buying Berkshire was a bad idea.

One of Berkshire's top holdings is **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)). Buffett owns 8.4 million common shares of Restaurant Brands, a position worth more than US\$300 million as of the end of September. Buffett also owns US\$3 billion worth of Restaurant Brands preferred shares, which pay him a dividend of 9% annually.

Although Restaurant Brands isn't listed as a top 10 position on Berkshire's 13F filing, it's still a sizable investment. Should you join Buffett and buy this international fast food powerhouse? Let's take a closer look.

Great brands

I like to joke that Buffett's investment style is just him loading up on the things he likes to eat. After all, he owns huge positions in companies like **Coca-Cola**, **Kraft-Heinz**, and Dairy Queen, a company he took private in 1997.

But there's a reason why he continues to invest in the consumer sector: it's because he understands the power of great brands.

Take a look at Tim Hortons, what I'd argue is the prize of Restaurant Brands's two main brands. Tim Hortons is the undisputed leader of coffee in Canada. Other chains have made an effort to catch up—specifically, **McDonald's** and **Starbucks**—but they've barely been able to make a dent in Tim Hortons's dominance.

Buffett understands the power of a great brand better than anyone. Think of it this way: Restaurant Brands has a market cap of \$9.9 billion on the TSX. If I gave you \$10 billion and told you to go knock Tim Hortons off its coffee pedestal, I'm not sure you could do it. I know I couldn't.

International expansion

There's a huge reason why the merger between Burger King and Tim Hortons was called Restaurant Brands International. That's where the growth is going to come from.

Tim Hortons barely exists outside of Canada. The chain has approximately 4,600 locations, with just 870 of them located in the United States. It also has 56 in the Middle East.

There's huge potential to expand the concept to other markets. **Dunkin Donuts**, one of the company's main competitors, has more than 3,100 stores in 30 countries outside of the U.S. Even if Tim Hortons could capture half of what Dunkin has, it still represents nice growth.

Burger King, the other half of Restaurant Brands, has already had success expanding outside of North America. It has approximately 13,000 franchised restaurants in 100 different countries and sees potential for thousands more. It just entered the Russian market and sees massive growth prospects in Africa, a continent that's been largely ignored by many of its competitors.

Reasonable valuation

On the surface, the stock seems to be expensive. It posted negative earnings over the last year, and analysts only expect it to earn \$1.48 per share for 2015. That puts shares at an expensive price-to-earnings multiple of 32.8.

But from a free cash flow perspective, it looks reasonably valued. During the last 12 months it generated US\$731 million in free cash flow. The company has a market cap of US\$7.3 billion on the New York Stock Exchange, giving it a much more reasonable valuation when looking at free cash flow.

There are a number of reasons why Warren Buffett loaded up on Restaurant Brands International shares. Perhaps other investors should be doing the same thing.

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Author

nelsonpsmith

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