



Restaurant Brands International Inc.: Is it a High-Conviction Buy?

Description

Who wouldn't want to invest in a stock considered a "high-conviction buy"?

Dr. Daniel Crosby has made a career out of behavioural finance. In addition to being one of the world's leading experts in this increasingly popular area of investing, he also runs Nocturne Capital, an investment management firm that uses a "high-conviction strategy" to hold between 25 and 30 high-quality stocks.

Taking into consideration five dimensions of investing—price, properties, pitfalls, people, and push—Crosby is able to identify the stocks that make the cut.

Today, using the five P's, I'll decide whether **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)) is a high-conviction buy or not.

Price: Is the company attractively valued?

Remembering that Restaurant Brands is a multinational restaurant chain with significant business in the U.S. and elsewhere, it makes sense to compare it to American restaurant companies rather than those here in Canada.

In July, *Mad Money*'s Jim Cramer took a look at six of the biggest restaurant stocks in the U.S., including Restaurant Brands. When it came to valuations Cramer felt Restaurant Brands was "...fairly expensive at 26 times earnings, and only a 1.35% yield."

The other stocks in the comparison were **Darden Restaurants, Inc.**, **McDonald's Corporation**, **Yum! Brands Inc.**, **Domino's Pizza, Inc.**, and **Chipotle Mexican Grill, Inc.**, which have an average 2017 P/E of 25, while Restaurant Brands's 2017 P/E is 29.

Is it attractively valued? No, but it's not overly expensive either.

Properties: Is it of the highest quality?

I don't think there's any question that Tim Hortons, and Burger King to a lesser extent, are quality brands whose businesses have held up rather nicely in good times and bad.

Majority controlled by 3G Capital, the people behind **Anheuser Busch Inbev SA** and **Kraft Heinz Co**, they know how to drive margins higher. With low to mid-single-digit same-store sales growth and continued growth margin expansion, not to mention 3G's attention to detail, you can't help but be confident in the management team.

Pitfalls: What are the potential hidden dangers?

CEO Daniel Schwartz told analysts in early August that Restaurant Brands wants to see the Tim Hortons name scattered across the globe—as well known in Asia as it is in Canada. It's currently planning a move into the Philippines.

"There is really no limit on how far the Tim's brand can travel," Schwartz said at the time. In fact, he'd like to see it as popular as Burger King is on a global basis.

So, with expansion underway, the big concern at the moment is softening sales at quick-service restaurants. It's hard to know if it's a cyclical thing or something more tied into an economic slowdown. The latter is having a significant effect on its expansion plans.

People: How are insiders behaving?

Here, Crosby is taking about insider buying of its stock. He's not so much concerned about selling, unless it's significant, because people sell for all kinds of reasons, including buying a vacation property, divorce, etc. However, insiders only buy for one reason, and that's because business is looking up.

The biggest insider to purchase its stock so far in 2016 is Pershing Square Capital Management, Bill Ackman's hedge fund, adding 1.1 million shares in the first three months of the year. Now owning 16.9% of its stock, Ackman is send a clear signal that he believes Restaurant Brands is a buy.

Push: Is it enjoying some momentum?

Its stock on the NYSE is up 12.7% in the last three months and 27.9% year-to-date, which is significantly higher than the S&P 500 and its restaurant peers. I think it's safe to give a resounding yes to this final question.

Bottom line

Obviously, I can't get inside Daniel Crosby's head. However, with the exception of price and, to a lesser extent, pitfalls (lower same-store sales growth in most recent quarter), Restaurant Brands does seem to meet the criteria for a high-conviction buy.

If eight out of 10 were required to be a high-conviction buy, I would guess Crosby would give it a seven.

Close, but no cigar.

CATEGORY

1. Investing

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