Restaurant Brands International Inc.: Troubled Times Ahead?

Description

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) was on a roll until it reported third-quarter earnings October 24. It was a mixed bag, to say the least. The Burger King and Tim Hortons parent saw its stock drop almost 7% in a single week as investors got a major case of indigestion on the news.

While profits were better in the latest quarter, it's the top line that should have shareholders seriously reconsidering owning QSR stock.

Burger King

QSR's fast-food burger chain saw its comparable sales increase by 1.7% in Q3–450 basis points fewer than in the same quarter a year earlier. Meanwhile, although system-wide sales increased 7% in the quarter to US$4.8 billion, it was 420 basis points lower than in Q3 2015.

These aren't terrible numbers, but you've got to consider them in the context of its industry and peers. **McDonald's Corporation** (NYSE:MCD) had third-quarter global comparable sales that increased by 3.5%, or more than double Burger King's.

That said, Burger King likely performed better than **Wendys Co** (NASDAQ:WEN) in the third quarter, although we won't know for sure until November 9 when Wendys releases its latest results. What we do know is that Burger King's comparable sales in the first two quarters of the year were 130 basis points (Q2) and 200 basis points (Q1) higher than Wendys'.

So, while Burger King isn't keeping up with the world's largest restaurant chain, it is holding its own in a very competitive fast-food environment. But it should be a concern for shareholders.

Tim Hortons

Like Burger King, Tim Hortons's system-wide sales and comparable sales growth weren't nearly as robust this year as they were in the third quarter last year. Its comparable store sales growth was 2% in Q3 2016–330 basis points fewer than Q3 2015; its system-wide sales growth was 4.8% in Q3

2016–340 basis points fewer than Q3 2015.

Again, like Burger King, it's important to take these numbers into context before condemning Restaurant Brands International or QSR stock.

How did **Starbucks Corporation** (NASDAQ:SBUX) and **Dunkin Brands Group Inc.** (NASDAQ:DNKN) do in the same quarter?

Starbucks reports its fourth-quarter results November 3. However, in its Q3 2016 report it projected that its full-year global comparable store sales growth would be mid-single digits. In the quarter ended June 26, 2016, they were up 4%–130 basis points higher than Tim Hortons in the same three-month period.

Meanwhile, Dunkin Brands, which also includes revenue from its Baskin-Robbins brand, saw Q3 2016 comparable store sales grow 2% in the quarter–30 basis points higher than Tim Hortons.

At least on the coffee front, QSR has some work to do.

Bottom line

In the first nine months of 2016, Restaurant Brands International's adjusted EBITDA increased 12.4% to US$1.38 billion on a 1.3% increase in revenue. On a net-income basis, the numbers in the first nine months of the year look even better–US$654.5 million or 100% higher than a year earlier–providing hope to shareholders that if its business in the emerging markets continues to prosper and it can figure out how to reignite its North American business, a higher future share price is in the cards.

However, I'd rather pay four times sales for SBUX stock than five times sales for QSR. Especially if both Tim Hortons and Burger King continue to experience sluggish comparable sales growth in upcoming quarters.

But it's your call.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:SBUX (Starbucks Corporation)
2. NASDAQ:WEN (The Wendy's Company)
3. NYSE:MCD (McDonald's Corporation)
4. NYSE:QSR (Restaurant Brands International Inc.)
5. TSX:QSR (Restaurant Brands International Inc.)

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/03
Date Created
2016/11/01
Author
washworth