Why Restaurant Brands International Inc. Is on my Wishlist

Description

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) has caught my attention recently, and for good reason too.

Restaurant Brands is the name behind both the Burger King and Tim Hortons brands. The combined company, which was formed through a merger of both companies back in 2014, boasts a network of over 19,000 restaurants in more than 100 countries.

While that figure alone is a testament to the reaching potential of the company, there's plenty more to love about Restaurant Brands.

Post-merger growing pains appear to be over

When the two companies merged back in 2014, critics made note of the significant amount of debt the new company was taking on, citing concerns that it would take years for any potential cost savings of the merger to be realized.

While the concerns were valid, Restaurant Brands has successfully handled the transition period well. Throughout most of 2015 the company focused on cost savings and integration efforts, which were met with success. Even better, Restaurant Brands was able to refinance a huge chunk of that initial debt; that has helped boost the bottom line.

How well has the company fared? As of the end of September, Restaurant Brands had total debt of US$8.9 billion and net debt of US$7.7 billion. Impressively, the company continues to reduce the overall debt with each passing quarter, yet it maintains an aggressive expansion agenda, particularly with the Tim Hortons line.

Strong results show promise and growth prospects

Last month Restaurant Brands reported better than expected results for the most recent quarter. Revenue came in at US$1.07 billion–an increase over the US$1.01 billion reported for the same quarter last year. Net income attributable to common shareholders registered a significant bump from the US$49.6 million last year to US$86.3 million.

Both brands registered comparable sales increases for the quarter with Tim Hortons showing a 2% increase, and Burger King reflecting a 1.7% increase. Both restaurants also increased the number of restaurants year over year; Tim Hortons increased by 3.4% and Burger King by 3.9%.

Tim Hortons has been the focal point of Restaurant Brands’s expansion efforts, and a series of deal announcements over the past few months have showcased exactly how the company intends to expand the Tim Hortons brand to new markets.

This past summer, a master franchise agreement was set up in the Philippines, which will begin to open Tim Hortons locations. Southeast Asia has strong demand for quick-service brands like Tim Hortons, which should fuel significant growth over the next few years.

A similar agreement was also set up this year to bring Tim Hortons locations to England, Scotland, and Wales. During the recent quarterly earnings conference call, company CEO Daniel Schwartz commented on the agreements, noting that stores in those new markets should be opening sometime early next year.

The decision to push the Tim Hortons brand to new markets should come as no surprise to anyone and is likely one of the key benefits of the combined company.

Burger King has become a model for international expansion that other franchises have aspired to follow. Over the years, the burger chain has expanded to over 100 countries using the master franchise agreement process; this process is now being used to further the Tim Hortons brand.

Over longer periods, the sheer genius of this model starts to take hold in that that slower sales in one part of the network, such as North America, where consumers are increasingly looking for healthier options, could be offset by rapid growth in other parts of the world, where there is a growing demand for fast-food locations, such as Asia and Latin America.

Additionally, variations of products customized to one market could be introduced without fear of tarnishing the overall brand in another. Company officials noted that Tim Hortons locations in the Philippines will likely feature both local favourites as well as standard menu items.

Restaurant Brands remains a great long-term investment, in my opinion. Fast-food businesses provide a predictable cash-generating business that continues to grow, irrespective of the broader economy. The company is continuously expanding to new areas, and finances within the company continue to improve, which will lead to more growth and higher dividends in the future.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

Category

1. Investing

Date
2025/07/21
Date Created
2016/11/17
Author
dafxentiou