



Is Restaurant Brands International Inc. the Right Buy?

Description

Mergers can be a hit or miss. Oftentimes, two companies merge and it turns out to be a disaster. But sometimes the merger goes down wonderfully and the business becomes a classic tale of $1 + 1 = 3$. In the case of **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)), which merged Burger King and Tim Hortons back in 2014, the sum of its parts is greater.

Going forward, what will drive this company's growth is international expansion. And when we think about Tim Hortons, there is so much potential.

But what's interesting is the method by which it expands.

Restaurant Brands has been using the master franchise joint venture (MFJV) model to rapidly grow its operations. Brazil only had 150 Restaurant Brands locations in 2011; now there are 500. Russia had fewer than 90 in 2012; now there are over 350. And China, which had fewer than 90 in 2012, also has since grown that number to over 450. This MFJV model allows it to expand fast.

In July, Restaurant Brands announced that it had formed a MFJV company in the Philippines, which has a propensity for quick-service restaurants and a strong economy. According to *CBC*, the company could launch hundreds of restaurants in the Philippines if the CFO's suggestion of matching its peers is true.

Another area of potential expansion is the United Kingdom. The U.K. has a severely underdeveloped coffee shop market. Every year, the number of coffee shops that open increases by 10%, so it's clear that the population wants coffee. Tim Hortons will just have to move fast, so it doesn't lose out to its other large competitors.

So how is this strategy doing?

It's doing rather well, actually. In October, the company reported a strong quarter with revenue coming in at US\$1.07 billion—up approximately \$60 million year over year. And its net income rose from US\$49.6 million to US\$86.3 million.

As I alluded to before, that growth is thanks to new restaurant openings. Tim Hortons saw its total number of stores increase by 3.4%, while Burger King saw its increase by 3.9%. Admittedly, I would like to see Tim Hortons scaling faster, especially because there are fewer Tim Hortons in existence than there are Burger Kings.

The company continues to pay down its debt. Over the last year, the net debt has dropped from \$8 billion to \$7.65 billion. While it's not a seismic drop, anytime a company is moving in the right direction, it's a good sign for investors.

Ultimately, this growth and debt reduction has made it possible for the company to pay a comfortable 1.45% yield. And it is a growing dividend. In the first quarter, it paid \$0.15 per share; in the second quarter, the dividend increased to \$0.16 per share; and finally, in the most recent quarter, management increased it to \$0.17. So long as income continues to grow, I expect the dividend will follow.

Fundamentally, buying Restaurant Brands is buying an internationally growing economy. The only growth this company will really experience is overseas; therefore, if you believe that people in other parts of the world will eat up Burger King and Tim Hortons, this might be a good buy. And a growing dividend is never something to turn away from.

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