



This Warren Buffett Stock Is on Sale

Description

Restaurant Brands International Inc. ([TSX:QSR](#))([NYSE:QSR](#)) is one of the premier growth plays on the TSX, but many Canadians may be misunderstanding the true growth potential of the business. At the time of writing, shares of QSR are down over 11% from their all-time highs following Bill Ackman's announcement that he's trimming his position. Should you buy this Buffett holding on the dip? Or follow the herd out of QSR?

Buffett's checklist: Durable competitive advantage and a strong management team

Restaurant Brands has a durable competitive advantage in its portfolio of solid brands: Burger King, Tim Hortons, and the recently acquired Popeyes Louisiana Kitchen. These are incredibly strong brands that aren't reflected in the traditional valuation metrics that investors usually look at first. The company also has an excellent management team in 3G Capital, which has a very impressive track record of international expansion.

Given that Restaurant Brands has a wide moat and a solid management team, shares deserve to trade at a premium, but still, many investors are not fans of the company's high price-to-earnings multiple, which is currently at 81.46. But here's why I believe shares are a great value when you consider the company's long-term growth prospects.

The management team has put its foot to the pedal on same-store sales-growth initiatives while growing its brands' international footprints. The most recent acquisition in Popeyes Louisiana Kitchen is expected to send the company's top line into the atmosphere over the long run as the company ramps up on its global expansion plans.

Dividend-growth king in the making?

Restaurant Brands certainly has the capacity to become a dividend-growth king, as the company continues to boost its cash flow stream. Although fast-food restaurants are considered consumer discretionary, I would argue that brands like Burger King, Tim Hortons, and even Popeyes are staples that will not be phased out in the event of an economic downturn.

Take a look at **McDonald's Corporation** ([NYSE:MCD](#)) and its performance during the Financial Crisis. Shares of MCD didn't drop much, and they were quick to recover. Why? The brand is powerful, and fast food is probably cheap enough that many consumers flock to such locations over pricier dine-in restaurants.

This means that in the event of a recession, Restaurant Brands will not take a massive hit to its sales because of the reduction in consumer spending, and that could potentially result in dividend hikes during times of economic turmoil.

Rise in labour costs a medium-term headwind, but here's why I'm not worried

Many governments are pushing higher minimum wages, and the fast-food giants may experience an increase in labour costs over the medium term, but over the course of the long term, I don't think this will be a problem as more jobs become automated.

You may have walked into a fast-food restaurant and noticed there are self-serve stations, where you can order without interacting with a human. Over the next decade, I believe food preparation will also be automated, and that means labour costs in the future will fall significantly. The rise of technology will be a major plus for fast-food operators and could be a source of cost cuts or a driver of sales.

Bottom line

Restaurant Brands could be the next dividend-growth king that will reward long-term shareholders. Although shares look expensive, I actually think they're undervalued when you consider the promising long-term growth prospects. As the name suggests, many more acquisitions could be made in the future, so that means there's no ceiling on QSR's growth.

If you're a growth-hungry, long-term investor, then you might want to consider buying shares of QSR on the dip.

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Author

joefrenette

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