Restaurant Brands International Inc.: Safe and Expensive Tend to Go Together

Description

Not too long ago, I dove into the fundamentals of one of Canada's largest Buffett-owned companies, **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR), highlighting reasons why I believed Restaurant Brands has remained overvalued compared to its peers for some time now.

In the space of just a couple of months, Restaurant Brands's stock price has dropped more than 5%. Have the company's fundamentals changed enough to justify building a long-term position at current levels?

Here's my take on why the most recent 5% drop in Restaurant Brands's stock price may have just provided long-term investors with an interesting entry point to begin building a long-term position.

Business model remains strong

Much of the discussion in early July was centred on the discussion of how a potential lawsuit may result in near-term turmoil for shareholders. With the lawsuit now seemingly in the company's rear-view mirror, it appears that investors and analysts have shifted gears from near-term worries to the long-term strengths of Restaurant Brands's business model.

Particularly interesting to note is a recent research report from Credit Suisse analyst Jason West, who upgraded Restaurant Brands primarily on the ability of the company to grow earnings in the medium to long term, linked to the company's strong track record of providing solid growth to investors who have been hard pressed to find such growth in many industries in today's economic environment.

Restaurant Brands indeed provides a unique growth profile when compared to its peers, and I thought I would cover this aspect of the company's business model a little closer, as this is one of the main reasons Restaurant Brands continues to trade at a significant valuation multiple premium to its peers.

Restaurant Brands's net income and free cash flow generation abilities are some of the best in the industry, with organic growth opportunities not available in other mature industries in the same size and scope as with Restaurant Brands. The current valuation multiple, when taking into consideration the average analyst consensus for the forward 12-month earnings target, makes Restaurant Brands an intriguing play, as the multiple comes down from over 85 to 26. While still above the industry average, if we take into consideration the robust growth profile Restaurant Brands provides long-term investors, the potential for significant capital appreciation exists.

Bottom line

While I may not necessarily agree with the current valuation multiple for Restaurant Brands from the perspective of a value investor, for those looking for growth in the next five to 10 years, I believe Restaurant Brands is likely to continue to exceed expectations. With a strong management team willing to engage in profit-maximizing activities, I would expect the company's key valuation multiples to improve over time as earnings grow according to expectations, and the company continues to extract additional value out of its robust and growing consumer base.

Sprinkling in a little Restaurant Brands here and there on a 5% dip is a smart thing for any investor to consider, even the most value oriented, such as myself.

Stay Foolish, my friends.

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