



Value Extraction or Ruthlessness? A Contrary Viewpoint on Restaurant Brands International Inc.

Description

In a recent [article](#) by fellow Fool contributor Will Ashworth, one of the largest headwinds for **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)), the company's ongoing dispute with its Tim Hortons franchisees and subsequently falling same-store sales, has been fully flushed out for Foolish readers.

The headwinds are real, and Will's analysis speaks to some of the issues that have been reflected in Restaurant Brands's stock price of late; while the high-growth fast-food restaurant chain has seen incredible growth in recent years, over the past three months, shares of Restaurant Brands have traded sideways (actually slightly down), as investors continue to digest what this ongoing dispute will mean for long-term earnings and cash flows.

As another Fool contributor, Joey Frenette, [pointed out](#), the relentless cost-cutting and value-maximization mantra 3G and Warren Buffett's **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) have brought to Restaurant Brands, along with a high-profile status and the ability of the business to pursue acquisitive opportunities, such as the recent Popeyes Louisiana Kitchen bolt-on acquisition, are reasons to consider buying and holding a company like Restaurant Brands on any weakness.

The quick-service restaurant business has certainly experienced share price weakness of late, and in the absence of any positive news relating to additional acquisitions or earnings-growth initiatives, it is understandable to see little movement in the company's stock price in recent months. Is this a sound investment strategy?

A number of analysts covering Restaurant Brands have brought up interesting points surrounding the underlying business. I tend to err on the side of investing in Restaurant Brands on any continued weakness moving forward. One of the key investment theses displayed by analysts is that the company's growth profile is simply superior to many of its competitors, allowing Restaurant Brands to demand a higher valuation multiple and PEG ratio for the indefinite future.

With a stable of constantly growing chains and the ability to continue to extract more value from the operating businesses, as a parent company, Restaurant Brands is expected to continue to outperform, regardless of macroeconomic events, which may be deadly for other businesses.

Another positive catalyst for Restaurant Brands is the ability of the company to pursue additional bolt-on acquisitions in the near future. While none have been announced, it is widely expected that Restaurant Brands's management team will be ready to jump at any opportunities as they arise, allowing for the company's earnings growth trend to continue indefinitely.

Bottom line

The ongoing dispute with Tim Hortons franchisees is an important headwind for investors to keep in mind. That said, the Tim Hortons franchise remains only a portion of Restaurant Brands's overall business model. Should the company announce yet another acquisition, Tim Hortons may simply slip into the background for most investors considering the business. The insatiable hunger many investors have for growth (and Burger King's burgers or Popeyes's chicken) may just overshadow the increased costs Tim Horton franchisees are paying for coffee cups.

I guess we'll have to see.

Stay Foolish, my friends.

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