Why Restaurant Brands International Inc. Is Worthy of a Premium Multiple

Description

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) is one of the best long-term growth stocks on the TSX for young investors looking for long-term capital appreciation and dividend growth. Many other fast-food businesses suffer from stagnant growth over time due to a lack of expansion opportunities, but Restaurant Brands will likely never have this problem since, as the name suggests, more acquisitions of powerful fast-food brands will likely be in the cards over the next few years. That means the company will always be firing on all cylinders on the expansion front, all while management invests in initiatives to drive same-store sales (SSS) across all of its chains.

Many investors have shied away from the stock since its IPO, because of its premium valuation and its high debt-load. Restaurant Brands is not a cheap stock, but if you have a look at the company's long-term growth profile, I believe the stock deserves to trade as any high-flying growth stock would.

The management team knows how to expand at the international level while driving comps through innovative promos and new menu items. The company is making good use of leverage to fulfill its long-term growth goals, but investors have become skeptical, not just because of the debt load, but because comps at Tim Hortons and Popeyes have been sub-par of late. Burger King has clearly doing most of the heavy lifting at Restaurant Brands over the past few quarters, and this has caused the general public to become concerned with the company's other chains, but here's why they shouldn't be.

I think the general public is too concerned about short-term results and are neglecting the fact that it can take more than just a few months or years to truly understand the ins and outs of a new restaurant chain, especially for expansion in new markets that may not be as familiar with a particular brand. Think of a U.S.-based Tim Hortons versus its Canadian counterpart.

A few lacklustre quarters for Restaurant Brands's new chains are nothing to worry about. The recent franchisee dispute at Tim Hortons may be affecting sales in recent quarters, but I believe the short-term issue will resolve itself with time.

As for Popeyes, it hasn’t even been a full year since the deal closed, so it’s going to take quite a bit more time before the chicken is ready!

As we head into holiday season, Tim Hortons hopes to revitalize its sales with a new line of Cinnabon beverages, holiday koozies, and seasonal baked goods. I believe these new product offerings will be more successful than last quarter’s espresso-based drinks, which failed to live up to expectations.

Bottom line

Despite the hefty valuation and flat SSS growth numbers for Tim Hortons in recent quarters, I still think Restaurant Brands is a compelling long-term buy now and on any further dips. Bill Ackman recently trimmed his position in Restaurant Brands, but investors shouldn’t think too much of it. Ackman still has a huge position in the company; he just needs to raise cash for his latest activist ventures.

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