Where Is Restaurant Brands International Inc. Headed in 2018?

Description

Investors are concerned about **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR), and rightfully so. Back in July, I asked this question: Are there painful times ahead? I got the answer that no one was hoping for: Yes.

What we were talking about in July was the Great White North Franchisee Association (GWNFA) class-action claim against Restaurant Brands. They're suing for $500 million in damages due to Restaurant Brands's lack of transparency and an unwillingness to answer questions.

It all boils down to money. To help franchisees succeed, Restaurant Brands collects 3.5% of gross sales to run ad campaigns to boost sales. The GWNFA argued that it wasn't running those campaigns. The franchisees wanted to understand why they should pay those fees if the money wasn't going to actually be invested.

But now Restaurant Brands is in the news regarding the minimum wage increase in Ontario. The son of the Tim Hortons founder is telling his employees that the new $14 minimum wage will result in changes to their benefits. There's now a "Boycott Tim Hortons" campaign going around. Admittedly, I'm not too concerned about this, but Restaurant Brands can't catch a break. It's bad news after bad news.

And the thing is, if the company would stop shooting itself in the foot, it'd actually be an incredible investment for people to make. It all boils down to a smart business model called the master franchise joint venture (MFJV).

In 2010, Burger King was launching approximately 150 units per year. In 2017, it was looking at launching 700 per year. The MFJV made that possible. Effectively, the MFJV gives exclusivity to partners to launch multiple restaurants in a geographic area.

Why work with a decentralized network of franchisees if you can work with fewer partners? It reduces your overhead, and it increases your supply chain efficiency, because you're able to coordinate with one central office versus hundreds (if not thousands) of offices in an older franchisee model.

And then there's the acquisition of Popeyes Louisiana Kitchen. Compared to KFC, which has 21,000 locations, there are fewer than 3,000 Popeyes today. That's despite the fact that chicken accounts for 10% of the total fast-food market. It's an insanely profitable business.

I fully expect Restaurant Brands to launch multiple MFJVs across the world in an effort to boost its Popeyes footprint. When that happens, the company's overall revenue will grow significantly. It's been doing it with Tim Hortons, allowing the coffee maker to expand internationally. And so far, it's been working.

So, we come to the question of what investors should expect in 2018, and there are a couple of primary points. First, there is going to be significant bad press over the coming months. Minimum wage is a contentious topic, but I don't see the boycott doing all that much. People like their coffee. It's that simple.

And second, I fully expect to see at least one MFJV discussed and/or launched for Popeyes. It may be too soon, but with chicken being such a hot product, Restaurant Brands needs to pounce as soon as it can. If this happens, the stock will experience considerable growth.

But if all of the drama is too much for you, there are plenty of other opportunities available on the market.

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