Restaurant Brands International Inc. Becomes 1-Trick Pony

Description

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) delivered its fourth-quarter earnings February 12, its first report since the brouhaha over the minimum wage hike hit the news early in 2018.

Investors liked what they saw, sending Restaurant Brands's shares up 4%. So too did Fool contributor Joseph Solitro, who provided a rundown of all the positive news from the company's Q4 2017 results.

Solitro focused his assessment of the quarter on two facts that are undeniably good for Restaurant Brands's shareholders.

First, the company raised its quarterly dividend by more than 114% to US$0.45 per share, with the first payment to come April 2. Analysts were amazed by the increase. CIBC World Markets analyst Mark Petrie called it more substantial than anything he was expecting.

The second result that's hard to ignore is the 50% year-over-year increase in its adjusted earnings to US$0.66 per share from US$0.44. When you're growing earnings by this much, it's hard not to be impressed.

But before I get into why investors ought to be concerned that Restaurant Brands has become a one-trick pony, let's consider the positive information Solitro discussed from the viewpoint of a devil's advocate.

The rich get richer

On the dividend front, although CEO Daniel Schwartz is paid by Restaurant Brands, he ostensibly works for 3G Capital, the company's majority owners. By the flick of a switch, 3G is now US$183 million wealthier as a result of this decision. One need only read about Sears Canada's ongoing pension battle to know what self-interest looks like.

As for the US$0.66 in earnings per share, consider how it achieved this number.

Tim Hortons generated 50% of the company's US$606.3 million in adjusted EBITDA in the quarter, Burger King generated another 44%, and Popeyes kicked in the remaining 6%. The problem, as I see it, is that Tim Hortons's sales come with a 17% adjusted EBITDA margin compared to 5% for Burger King and 4% for Popeyes.

To me, the growth in earnings would be a lot more interesting if it were at Tim Hortons, despite the lower sales.

Is Restaurant Brands becoming a one-trick pony?

Burger King's same-store sales grew 4.6% in the fourth quarter and by 3.1% for the entire year. By contrast, Tim Hortons's same-store sales grew a measly 0.1% in the fourth quarter and declined by 0.1% for the year, while Popeyes saw declines of between 1% and 2% in both the fourth quarter and the entire year.

Can you see where I'm going with this?

If sales growth, especially same-store sales increases, are the elixir of life in the restaurant industry, Burger King is most certainly driving Restaurant Brands's bus.

The problem is, what happens when Burger King falters? Is Daniel Schwartz going to extol the virtues of Tim Hortons's profitability over the push to grow top-line sales on a global basis? I don't think so.

However, with Tim Hortons's ongoing failure to deliver, Burger King must continue to grow if it wants to justify a stock price that's 6.4 times sales — double the industry average.

Bottom line on Restaurant Brands stock

Call me cynical, but I see the company's doubling of the dividend as a form of bribery for shareholders who might have been considering jumping ship over the way it handled the minimum wage situation.

That aside, I'm not sold that Restaurant Brands is anything but a one-trick pony.

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