Restaurant Brands International Inc.: So Much Potential and Yet So Many Problems

Description

It's frustrating when an investment that has so much potential also has so many problems. That's one of the easiest ways to describe **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR). Rather than being able to clearly focus on its expansion into fried chicken with the Popeyes acquisition, it's dealing with franchise problems with its Tim Hortons brand.

The Great White North Franchisee Association (GWNFA) initiated a class-action claim against Restaurant Brands, looking for $500 million in damages. Restaurant Brands collects 3.5% of gross sales to run ad campaigns in an effort to boost sales. The GWNFA is arguing that those campaigns weren't being run, and they want to know where the money is.

If that weren't enough, the GWNFA is now threatening legal action because a computer virus shut cash registers down. The GWNFA is asking for damages and wants to understand how the outages happened and what Restaurant Brands is going to do to fix it.

What makes this so unbelievably frustrating is that Restaurant Brands has so much potential, but it continues to have problems that keep the attacks coming from the GWNFA. If Restaurant Brands can't figure out how to deal with its franchisees, things are going to get very expensive very quickly.

Restaurant Brands operates in three markets. The first is the coffee business, which is through Tim Hortons. The second is hamburger fast food through Burger King. And the final is chicken products through the Popeyes Louisiana Kitchen brand, which it bought about a year ago.

The businesses are doing pretty well. Total revenue was up to $4.57 billion from $4.14 billion a year ago. And net income nearly doubled from $345.6 million to $626.1 million. A big driver of this is the net restaurant growth and system-wide sales growth. Tim Hortons saw 2.9% growth in restaurants with system-wide sales growing by 3%. Burger King saw 6.5% growth in restaurants and had system-wide sales growth of 10.1%. Popeyes grew by 6.1% in new restaurants with sales growth coming in at 5.1%.

Looking forward, I expect a couple of things to happen:

First, Popeyes is going to continue being integrated, which should help with sales and new store openings. Comparable sales were actually down 1.5% compared to the 1.7% growth in comparable sales a year prior. I expect these numbers to even out going forward.

Second, I agree with fellow Fool writer Joey Frenette that Restaurant Brands is going to go after the pizza business. The worldwide pizza market is US$134 billion according to Euromonitor. In the United States alone, that's over US$40 billion. So, I fully expect an investment in this space.

At a 3% yield, this stock makes sense for those looking for income. Management has increased the dividend aggressively over the past few years, so I fully expect that to continue happening as the business grows.

So, should you buy Restaurant Brands? You have to believe that, at some point, the company will figure out its problems with franchisees. And if that happens, and it can put the bad news behind it, Restaurant Brands should grow quickly. I wouldn't be afraid of owning some of this company.

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Author
jaycodon