This Company Served Investors with a Whopper of a Dividend Increase

Description

What if I told you that there was a shareholder-friendly cash cow that's poised to return a profound amount of capital back into the pockets of shareholders whilst still maintaining massive levels of double-digit growth?

The mystery stock I'm about to present to you today recently increased its dividend by a whopping 114.3% following the release of its Q4 2017 results. The stock responded by rallying, but this rally was short-lived, as the gains were surrendered in a hurry thanks in part to a public relations fiasco that's plagued one of the company's subsidiaries. The decline is being exacerbated by a market-wide pullback.

The mystery stock, as you may have guessed, is **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR), and the subsidiary is, of course, Tim Hortons. But before you stop reading the rest of this article, I want to take a moment to consider the worst-case scenario, which I believe is already baked into the share price at these levels. When taking the company's incredible growth and the profound amount of cash that stands to be returned to investors over the next five years, I think the stock is severely undervalued; recent news stories have been causing the stock to be unfairly punished.

Tim Hortons has experienced sub-par same-store sales growth (SSSG) numbers for quite some time now, and the endless barrage of negative headlines is surely not helping the company's reputation with Canadians. Franchisees are disgruntled, some Tim's regulars have been boycotting the brand, and many morally conscious investors believe the company is acting selfishly by making deep cuts that not only hurt its partners, but also its frontline employees.

With this in mind, I believe that the average investor is taking the negative developments too personally, and that the longer-term implications of the problem are nothing to be worried about. The fundamentals are still intact, and the company still stands to be one of the best blue-chip growth stocks on the TSX.

If you're a morally conscious investor, that's fine; however, you should understand that the fault doesn't lie with Restaurant Brands' management, as I've noted in a previous piece. Moreover, the troubled franchisee relationship may be a cause for concern, as future initiatives may be subject to resistance; however, I think this matter is baked into the current share price and then some.

As such, the stock has been so overly punished such that Morgan Stanley has called the stock the “single most dislocated” stock in its sector.

“Post-refranchising growth of underlying cash flows and ability to return capital will be drivers of shareholder value creation,” said John Glass, an analyst at Morgan Stanley.

Even with no growth over the next year (an improbable scenario), the company is still a cash cow, with the ability to continue to reward shareholders through generous dividend increases. Moreover, given the defensive nature of fast-food firms, the global expansion opportunity and potential to improve SSSG at all its chains, the stock appears to have a large margin of safety at current prices.

Fellow Fool contributor Will Ashworth seems to think that the recent dividend double is “a form of bribery.” I couldn’t disagree more. This special increase is a huge vote of confidence by management in its abilities as a predictable cash cow. And its cash flow is slated to accelerate given the high-growth nature of its business.

Over time, it’s been shown that boycotts have minimal effect on a firm in the grander scheme of things. Moreover, I believe such controversies will be forgotten about a few years down the road. Tim Hortons is a great global brand; however, it may take years to hit the optimal tone with franchisees and customers.

Bottom line

The stock trades at a mere 16.3 times forward earnings, which is absurdly undervalued given the premium aspects of the underlying business and its promising growth runway.

Make no mistake. Restaurant Brands still remains a premium growth stock. In the end, it will be the earnings results that will dictate the trajectory of the stock price. In the meantime, enjoy the whopper 3.3% dividend yield!

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Date
2025/08/25
Date Created
2018/04/09
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