Have Investors Lost Sight of This Bottom Line?

Description

Over the past several weeks, a very public spat has erupted between Tim Hortons; franchisees and their head office, otherwise known as **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR), a spat that has many shareholders worried. At a current share price of less than $70 per share, it's becoming increasingly clear that the value to be had in this name is being called into question.

As is always the case, investors must ask, "What am I giving vs. what am I getting?" before making any major investment. In the case of Restaurant Brands International, which also owns Popeyes Chicken, shares have declined from a one-year high of $88.36 to a current price of less than $70 per share, which offers a dividend yield of almost 2.6%. It is very evident that this name will eventually bottom out once it becomes a dividend play, but probably not before that.

What many investors missed over the past few months is that its quarterly dividend payment is now $0.45 per share per quarter. The expected payout ratio (as a percentage of profits) will be approximately 70% barring a major fallout from customers.

With a fantastic footprint from coast-to-coast, the potential for a turnaround story is very high should things return to normal back at the ranch. The challenge faced by the franchise and franchisees alike is that the product and service remains no better than average. In spite of very reasonable prices, the truth is that the coffee and muffins from competing firms such as **McDonald's Corporation** (NYSE:MCD) are just as good and are sold at better prices.

Given the current share price and high payout ratio, the opportunity for investors is yet to be determined. As there is only minimal room for a dividend increase over the next few quarters, the current share price could still hold a substantial amount of downside. As always, investing in equities can be a very risky proposition.

For a company that pays this dividend, a yield of 4% would translate to a share price of $45. Assuming that the earning per share were held constant at $2.54, the price to earnings (P/E) multiple would be no less than 17.5 times — a very reasonable price to pay for this name. The problem that has plagued investors from the time the stock came to market, however, was the sky-high multiple that was extended to this name. In spite of being a "Canadian gem," the company has clearly demonstrated that it can be displaced by rivals — even if the rival is your partner!

With so many fantastic investments to choose from, Canadian investors may need to cast a wider net before beginning the investment process. Otherwise, a share price of $45 is a completely fair entry point for Restaurant Brands.

CATEGORY

1. Investing

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2. NYSE:QSR (Restaurant Brands International Inc.)
3. TSX:QSR (Restaurant Brands International Inc.)

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Author
ryangoldsman