Why Restaurant Brands International Inc. (TSX:QSR) Won't Hit $100 This Year

Description

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR) has been busy in recent months fixing its self-inflicted Tim Hortons mess, but if you forget about that one little franchise, the rest of the company is doing pretty darn good.

That's especially true at Burger King, which is a big part of why my Fool colleague Chris MacDonald believes QSR stock can hit $100 this year.

Here's why I think it won't.

How does Burger King compare to other chains?

As Chris pointed out in his mid-June article, Burger King's same-store sales increased 3.8% in the first quarter ended March 31. That's against the backdrop of a -0.1% same-store sales decline a year earlier. Combined, Burger King delivered 24-month same-store sales growth of 1.9%.

How does that compare to **McDonald's Corporation** (NYSE:MCD)?

In its first quarter, McDonald's global same-store sales growth was 5.5% and 4% in Q1 2017 for an average of 4.8% growth over the past 24 months — 290 basis points higher than Burger King.

Yet McDonald's trades at a forward P/E of 20.4 — identical to Restaurant Brands.

Not convinced?

Let's compare Burger King to **Domino's Pizza, Inc.** (NYSE:DPZ), arguably the most successful restaurant stock in the past decade or longer. It had Q1 2018 global same-store sales growth in Q1 2018 of 6.7% and 7.3% a year earlier for a two-year average of 7.0% — 220 basis points higher than the Golden Arches and 510 basis points higher than Burger King.

It's got a 34.1 forward P/E, which is perfectly understandable for a company whose stock has grown by 2,501% since 2010 — better than four of the FAANG stocks (**Facebook's** only been a public company since 2012) and **Tesla Inc.**

To get to $100

Restaurant Brands is currently trading just below $80; it's got to appreciate by 25% over the next six months to hit triple digits.

The markets, if you haven't noticed, are starting to get a little volatile, and while the TSX is doing better than it has in some time — it gained 5.9% in the second quarter — it's still trailing the S&P 500 year to date.

The Canadian economy isn't nearly as strong as the American economy, which works in Restaurant Brands's favour, because Burger King generates a significant portion of its sales in the U.S. That said, Canada still accounts for 55% of the company's overall revenues.

Until the company gets the international business growing, I'm not sure how much more Burger King can do to move the needle; it's already generating 43% of Restaurant Brands's segment income, despite producing only 34% of the revenue.

If Burger King delivers a sales miss in either the second or third quarters, it'll be back in the high $60s; if it's in the low $60s, Tim Hortons will continue to skate on thin ice.

Too much debt

It's one thing to pay 20 times earnings for a company that's firing on all cylinders. It's another to pay that much for a company that's only running on one cylinder (Burger King) and entirely another when that company has US$11.4 billion in net debt — a whopping 12 times the trailing 12-month free cash flow of US$943 million.

I've been down on QSR for more than a year, and yet buyers continue to flock to its stock. I realize I'm an outlier, but I don't see shareholders celebrating $100 by New Year's Eve.

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