Restaurant Brands International Inc. (TSX:QSR): A Great Long-Term Hold for Your TFSA

Description

Canada is home to a number of great companies. But while many of them are well known within Canada, not as many are known outside the country. One company that does have a well-known international presence is **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR). The company owns and operates a number of brands, including Burger King, Popeyes, and, of course, Tim Hortons.

While the companies it holds have been around for some time, Restaurant Brands itself is relatively new. However, its franchises have expanded its geographic footprint substantially to the point where the company operates in almost every country around the globe. The company foresees international growth continuing in the future, especially for more localized brands such as Tim Hortons.

Year after year, the comparison of earnings is a little confusing due to the adoption of new accounting standards, which include items such as advertising expenditures. Fees from franchisees are now also recognized over time instead of up front, as was the previous standard. The Q1 report included comparisons from both previous and new standards. As a result, the numbers below are from the previous standards for more accurate comparison to 2017.

Using the previous standards, Restaurant Brands had net restaurant growth of 5.1% as of Q1 2018. System-wide sales growth was up 6.2% in the first quarter, although total revenues decreased by 3%. Adjusted EBITDA grew organically at 5% over the period, primarily from growth in Burger King and Popeyes, which offset a decrease from Tim Hortons.

The company pays a growing dividend of almost 3% at the current market price. It expects to continue to increase the dividend in the coming years, with a large increase expected for 2018.

While it has amassed a large amount of debt through its acquisitions and restaurant capital expenditures, Restaurant Brands has been working to pay down its debt rather quickly. Also, because of the company’s increasing profitability, its ability to service and pay down its debt has also improved. The ratio of long-term debt (including preferred share issues) to adjusted EBITDA has decreased from

7.5 times to 5.5 times.

The ratio puts Restaurant Brands in line with the debt-service levels of most other major restaurant operators, such as **Wendy's Co.** and **Domino's Pizza Inc.** While I'm a fan of comparing debt levels on a relative basis, given the fact that high debt is high debt, it does put Restaurant Brands's debt in perspective as it pertains to the sector.

The company has been having some well-published issues with its franchisees that had been affecting the stock price over the last year. Franchisees were not pleased with some of the cost-cutting and efficiency initiatives that Restaurant Brands had put in place. The concerns seem primarily connected to the Tim Hortons segment.

With its growing business model, geographic footprint, and dividend, this company looks to be a good hold to put in your TFSA for the long term. There are risks facing the company, such as the issues it is having with franchisees and its still-large debt load. But Restaurant Brands is making inroads to paying down the debt, and the restaurant problems seem to be more headline issues that the company is seeking to remedy.

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