Restaurant Brands International Inc. (TSX:QSR): Q2 2018 Earnings Review. Buy, Hold, or Sell?

Description

Restaurant Brands International (TSX:QSR)(NYSE:QSR) released its second-quarter results yesterday. Here's what to make of it.

The market seemed to be all right with the results, as the stock appreciated more than 1% on the New York Stock Exchange.

Restaurant Brands's Q2 2018 results

For the quarter, Restaurant Brands experienced lower system-wide sales growth of 2.2% and 8.4% for Tim Hortons and Burger King, respectively, which are lower than the 2.6% and 10.6% experienced in the same period in 2017.

The global quick-service restaurant company experienced system-wide sales growth of 10.7% for Popeyes Louisiana Chicken compared to 3.3% in the second-quarter of 2017.

Restaurant Brands's system-wide sales for Tim Hortons, Burger King, and Popeyes Louisiana chicken increased 5.8% to US$1.74 billion, 8.9% to US$5.4 billion, and 5.3% to US$937.6 million.

The overall growth at the three restaurant brands have led to stable results for the quarter. Here are some key metrics compared to the same period in 2017:

	Q2 2017	Q2 2018	Change
Total revenues	US$1,132.7 million	US$1,144.3 million	1%
Diluted earnings per share	US$0.37	US$0.67	81.1%
Adjusted earnings before interest, taxes, depreciation, and amortization	US$531.1 million	USS$563.1 million	6%

Adjusted net income	US$241.7 million	US$312.4 million	29.3%
Adjusted diluted earnings per share	US$0.51	US$0.66	29.4%

Notably, Restaurant Brands began reporting with the new revenue recognition account standard effective January 1, 2018. To keep the comparison relevant, the above metrics were both calculated according to the previous accounting standards.

The diluted earnings-per-share growth looks greatly skewed. So, it's better to look at the adjusted diluted earnings-per-share metric that smooths the numbers out.

Dividend, valuation, and returns potential

Restaurant Brands is a good dividend-growth stock. It generates stable earnings and free cash flow to support its growing dividend. It has increased its dividend for three consecutive years. Its quarterly dividend per share of US$0.45 per share has more than doubled from a year ago.

With Restaurant Brands's payout ratio now sitting at about 67% compared to about 37% in 2017, it's more reasonable to expect the company to grow its dividend per share at a rate that more or less matches its earnings-per-share growth rate. It's conservative to forecast Restaurant Brands growing its dividend per share by 10-15% per year for the next three to five years.

The analyst consensus at **Thomson Reuters** has a 12-month target of US$71.20 per share on the stock, which means there's about 11% near-term upside potential.

At about US$63.90 per share, Restaurant Brands trades at a blended price-to-earnings multiple of about 26. Based on an estimated long-term earnings-per-share growth of about 15% per year on average, the stock is reasonably valued. If the growth estimate more or less materializes, the stock should deliver long-term returns of 10-13% per year, barring the occurrence of a recession, during which stocks can drop a lot in a short time. That's why it helps to consider recession-proof stocks for your portfolio.

Investor takeaway

Restaurant Brands's Tim Hortons launch in China should spur growth for the company. Meanwhile, the stock is reasonably valued today and offers a 2.8% yield. Investors can begin buying the stock at a desirable dividend yield point, perhaps 3%.

For me, the stock is a hold at this point.

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