



## Is Restaurant Brands International Inc. (TSX:QSR) a Buy at \$78?

### Description

The one thing I've learned about 3G Capital disciples is that they are very good at delivering increased profits to the bottom line.

**Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)) CEO Daniel Schwartz proved this point in the second quarter, wringing a [29.3%](#) year-over-year increase in adjusted net income from a 1% increase in sales.

Forget the fact that it's having a heck of a time growing the top line; investors only care about the bottom line — and judging by the company's latest results, it could be the catalyst that moves QSR stock to [\\$100](#) before the end of the year.

### So, is it a buy at \$78?

You're probably wondering how I came up with \$78 given that it's currently trading around \$81.50 as I write this, and it hit a 2018 high of \$85.71 as recently as July 24.

Well, Fool contributor Kay Ng evaluated Restaurant Brands' second-quarter results August 2, concluding that a good entry point for new investors would be when its dividend yields 3%. Currently paying US\$0.45 per quarter, that works out to \$2.36 Canadian on an annualized basis. A 3% yield works out to approximately \$78.

So, here we are wondering if Restaurant Brands is a buy at \$78.

### The case for \$78

It's a given that my colleague believes QSR stock is worth buying at \$78. She's not alone.

In July, Ambrose O'Callaghan, while not opining on the intrinsic value of Restaurant Brands' stock, did paint a relatively positive picture of the company in the year ahead.

"RBI has worked to address challenges at Tim Hortons with its ambitious investment plan, which was unveiled last quarter," O'Callaghan [wrote](#) July 26. "Results have improved at Popeyes, and Burger King's performance has been consistently excellent. I'd like RBI to overcome its issues at Tim Hortons

over the next year.”

While I’m not a mind reader, my guess is that O’Callaghan would likely argue that its stock would head higher over the remaining four months of the year; not lower, but that’s merely speculation.

Finally, Fool contributor Kris Knutson [argued](#) in mid-July that Restaurant Brands was a great long-term hold for your TFSA. At the time of the article, QSR was trading around \$83.

As any financial professional will tell you, capital gains aren’t taxable in the tax-free account; thus, you’re wise to only include stocks that will go up in price over the long haul because you can’t use tax losses to offset capital gains.

He’s not specifically saying it’s a buy at \$78. However, it’s safe to say it’s an implied buy at that price.

### **The case against \$78**

In early July, I took the opposite position to Fool contributor Chris MacDonald’s [assertion](#) that QSR stock would hit \$100 by the end of the year, arguing that it wouldn’t because it was already an expensive stock based on most financial metrics along with the fact that it carries way too much debt on its balance sheet.

Looking at the company’s second-quarter sales numbers, I see a Tim Hortons’ two-year comp of -0.4%; Burger King’s two-year comp is 2.9%, and Popeyes’ two-year comp is 0.1%—hardly the stuff of legends.

And while Restaurant Brands might have increased its adjusted net income by almost 30% in the second quarter, it managed to reduce its net debt by just \$100 million in the quarter because of significantly lower cash flow in the first half of the year.

Whether we’re talking about its expansion of the Tim Hortons’ brand in China or its ability to resolve the issues with its franchisees on both sides of the border, I’m skeptical about this company.

I’m just not convinced that Restaurant Brands is the real deal—and its mediocre comps back me up.

### **QSR stock’s true value**

Intrinsic value is impossible to nail down. While I don’t think it will get to [\\$100](#) by the end of the year, I also don’t think it’s about to slide into the \$60s.

Is it worth \$78?

I’m not about to buy QSR stock to find out, but feel free to go ahead and find out for me.

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