Hungry for Growth? You Need Restaurant Brands International (TSX:QSR)

Description

I've long held the view that **Restaurant Brands International Inc**. (TSX:QSR)(NYSE:QSR) is one of the best growth and income plays on the market, with the stock serving as a prime candidate for long-term investors to buy and forget.

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After a series of widely publicized labour and franchisee issues earlier this year that took a toll on the stock price, Restaurant Brands has recovered somewhat, but still trades at a 7% discount over the price it was at the turn of the year.

Investors contemplating Restaurant Brands should look at the following key points that will continue to drive earnings and its dividend higher over the long term.

Lessons learned, lessons applied

One of the things that Restaurant Brands' incredible management did after joining Burger King and Tim Hortons together was to leverage the successes of one brand to help out the other. By way of example, Burger King had an incredible international footprint with stores in dozens of countries around the world, but Tim Hortons', although widely known in Canada and in some cross-border states of the U.S., lacked any real international expansion.

Fast forward a few years and Tim Hortons has adopted Burger King's master franchise agreement model, which has helped the coffee chain set up operations in the U.K., Philippines, and Mexico.

That knowledge is now set to pass onto the newest member of Restaurant Brands, Popeyes, Louisiana Kitchen. Popeyes announced this past week the signing of a master franchise agreement to enter the Phillippines.

This deal could prove to be lucrative for several reasons.

First, expanding into the Philippines brings a foothold into the lucrative market that is Asia. It's fair to expect that additional agreements in other countries will follow and that Popeyes menu will include some local flair, much like Tim Hortons announced when it entered the market.

The second point has to do with that flair. Restaurant Brands has had incredible success with taking predominately well-known brands and bringing them to new markets. But the company takes that expansion one step further by adding menu items that adhere to local tastes.

We saw this as Tim Hortons entered Spain, the Philippines and the U.K. this year, and as recently as earlier this month Tim Hortons noted that its upcoming entry into the Chinese market will feature local menu items such as congee and matcha.

Finally, there's Popeyes menu. Unlike Burger King or even Tim Hortons, Popeyes' menu is predominately chicken, which has a broader, more universal appeal without Restaurant Brands to drastically modify the menu to suit local needs.

Impressive growth leads to impressive results

Most investors may not realize this, but Restaurant Brands has evolved over the past few years into an attractive income play.

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Since the company was created through the Tim Hortons' and Burger King merger back in 2015, Restaurant Brands stock has appreciated nearly 90%, and its quarterly dividend has increased in nearly every quarter since then.

To put that into perspective, Restaurant Brands' dividend in February of 2015 had a paltry yield that was below 0.7%. Fast forward three years and a dozen dividend hikes and Restaurant Brands' yield is now an attractive 2.92% and likely to continue growing.

Restaurant Brands announced results for the second fiscal of 2018 earlier this month. In that quarter, Restaurant Brands reported EBITDA of US$562 million, which translates into a 4% year-over-year improvement.

Strong growth helped the company post adjusted diluted earnings of US$0.66 per share, up sharply over the US$0.51 reported in the same quarter last year.

On a segment basis, Tim Hortons saw sales growth of 2%, whereas Burger King saw a sales growth of 8% in the quarter. Popeyes saw an impressive 11% sales growth, reflecting its successful push into international markets.

Final thoughts – should you buy?

Restaurant Brands is an appealing buy for those investors looking for long-term growth and income. The company's ongoing expansion in international markets as well as addressing issues with weak sales in some domestic areas should continue to feed growth for years.

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