Is Restaurant Brands International Inc. (TSX:QSR) Canada's Best Restaurant Buy?

Description

The results are in.

Restaurant Brands International (TSX:QSR)(NYSE:QSR) reported Q3 2018 earnings October 24. They were generally positive, prompting me to ask whether QSR has once more become the best Canadian restaurant stock to own.

The good

On the top line, revenues grew 13.8% to US$1.38 billion, with overall same-store sales growth of 0.6% at Tim Hortons, 1% at Burger King, and 0.5% at Popeyes.

On the bottom line, its adjusted net income grew 8.1% to $297.9 million from $275.6 million in the same quarter a year earlier. On a per-share basis, earnings increased by 8.6% year over year to $0.63 due to fewer shares outstanding.

Regarding net restaurant growth, Tim Hortons added 125 new restaurants over the past four quarters, an increase of 2.7%. Burger King added 986 new restaurants, an increase of 6.1%, and Popeyes added 213 restaurants, an increase of 7.6%.

Overall, Restaurant Brands added 1,324 new restaurants in the past four quarters, an increase of 5.6%.

While the 0.6% increase in same-store sales at Tim Hortons isn't a home run or remotely close to the growth it once had, it was 30 basis points higher than the same period last year, suggesting the company's "Winning Together" plan is gaining traction.

"During the third quarter, together with our franchisees, we continued to improve Tim Hortons comparable sales by executing against our 'Winning Together' plan," stated CEO Daniel Schwartz in its Q3 2018 press release.

The bad

I think it's easy to see where the quarter's biggest disappointment lies.

Burger King's 1.0% same-store sales growth is hardly a number to write home about, especially given the fact it delivered 3.6% same-store sales growth a year earlier.

In July, I'd argued that QSR stock wouldn't hit $100 in 2018 — something my colleague Chris MacDonald felt was possible — because its reliance on Burger King would likely come back to hurt it at some point, which is what appears to be happening.

"It's one thing to pay 20 times earnings for a company that's firing on all cylinders," I wrote July 8. "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."

In that same article, I compared Restaurant Brands to **McDonald's** and **Domino's Pizza**. My thesis was that McDonald's had better same-store sales growth over the past 24 months, yet it traded at the same P/E multiple as QSR.

Well, McDonald's just delivered its Q3 2018 report, and its same-store sales growth was 4.2% — 320 basis points better than Burger King, Restaurant Brands's supposed star.

Oh, and while the company paid out that big fat $0.45 dividend in the third quarter, which amounted to $213 million in dividend payments, it repaid just $65 million of its debt.

A possible option right here in Canada

Heck, you don't even have to look south of the border for a restaurant that's performing better than Tim Hortons's parent.

A&W Revenue Royalties Income Fund (TSX:AW.UN) just reported its Q3 results October 17. Same-store sales grew 13%. Although the company owns the trademarks of the A&W name, it doesn't operate or own the actual restaurants. A&W Food Services of Canada Inc. does.

However, it gets paid a royalty on sales, so a 13% increase means more money for the stockholders. Currently yielding 4.9% with just $60 million in debt on its books compared to more than US$11 billion for Restaurant Brands, I've got a sneaking suspicion rising interest rates are going to hurt one more than the other.

No. QSR is not Canada's best restaurant buy.

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2. TSX:AW.UN (A&W Revenue Royalties Income Fund)
3. TSX:QSR (Restaurant Brands International Inc.)

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