Restaurant Brands International Inc (TSX:QSR) Shows Minimal Growth in Q3

Description

On Wednesday, **Restaurant Brands International Inc** (TSX:QSR)(NYSE:QSR) released its third-quarter results. While profits were up slightly from the prior year, sales under the previous accounting standards would have come in at 2% less than last year's numbers. Restaurant Brands has struggled in its previous quarters to grow sales, particularly with Tim Hortons lagging behind.

Let's take a closer look at the results to see how the company did and whether you should consider buying the stock today.

Comparable sales show minimal growth

Overall, all of the three restaurant chains struggled to show much organic growth this past quarter. Tim Hortons, which a year ago saw a growth rate of just 0.3% actually improved to 0.6%. Burger King's rate of increase fell from 3.6% to just 1%, while Popeyes saw growth of 0.5%, up from a decline of 1.8% last year. None of those numbers look impressive on their own, even if they are improvements from a year ago.

For investors to get excited about a stock and pay a premium for it, there has to be much more growth than just 1%. If we don't focus on comparable sales, then the results can get skewed as an increase in the number of restaurants can easily increase sales, but it's a finite strategy and doesn't truly reflect how a brand is doing versus where it was a year ago.

Popeyes, for instance, saw total sales growth of 7.9% this past quarter, which was the highest among the three brands. However, it also added 213 restaurants, for an increase of 7.6%, which was also the most among the chains.

Why net income was up 2.6%

Looking at the bottom line, you would have expected that Restaurant Brands had a strong quarter and may have concluded that its chains must have been doing well. However, with sales up by less than 2%, it didn't come as a result of a strong top line.

Instead, the company saw operating expenses decline by more than 4% as it saw improvements in all of its main expense items, aside from other operating expenses, which were up nearly US$5 million. These improvements helped boost operating income by a little more than US$3 million from a year ago.

Overall, there was minimal change in operating income from a year ago, and the improvement in net income came as a result of last year's totals being softer, which included a loss on an extinguishment of debt, which was largely offset by lower tax expenses. The total impact is summarized below:

	2018	2017	Change

Income from operations	$482.9	$479.3	$3.6
Interest expense (net)	$134.2	$136	-$1.8
Loss on extinguishment of debt	$0	$58.2	-$58.2
Income tax expense	$93.4	$38.3	$55.1
Net income	$255.3	$246.8	$8.5

*All figures in millions (USD)

Bottom line

Restaurant Brands didn't have a particularly strong quarter, and much of the improved results from last year came as a result of items that were below operating income, which can be a bit misleading.

Overall, without seeing much more significant sales growth, it would be hard to justify investing in the stock today. Restaurant Brands is making plans to try to strengthen its Tim Hortons' brand, but whether that will prove to be successful remains to be seen.

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