Should You Chow Down on This Yummy Stock Now?

Description

Restaurant Brands International (TSX:QSR)(NYSE:QSR) stock has appreciated about 40% in the last three years, delivering annualized returns of about 12.9% in the period. The pullback of about 16% in the last year is a good opportunity to buy shares of the cash cow, which offers a decent dividend yield of about 3.3%.

The business

Restaurant Brands is the third-largest quick-service restaurant chain in the world with three well-known brands under its belt, including Burger King, Tim Hortons, and Popeyes Louisiana Kitchen. It has more than US$30 billion in system-wide sales across over 25,000 restaurants in more than 100 countries and U.S. territories.

Almost 100% of Restaurant Brands's restaurants from each of its brands are franchised. Most of Restaurant Brands's revenue comes from its franchised restaurants, including royalties that are based on a percentage of the sales from franchise restaurants, property revenues from properties it leases or subleases to its franchisees, and distribution sales to franchisees.

To grow internationally, Restaurant Brands has established master franchise and development agreements in a number of markets and has also created strategic master franchise joint ventures in which it has a meaningful minority equity stake in each joint venture.

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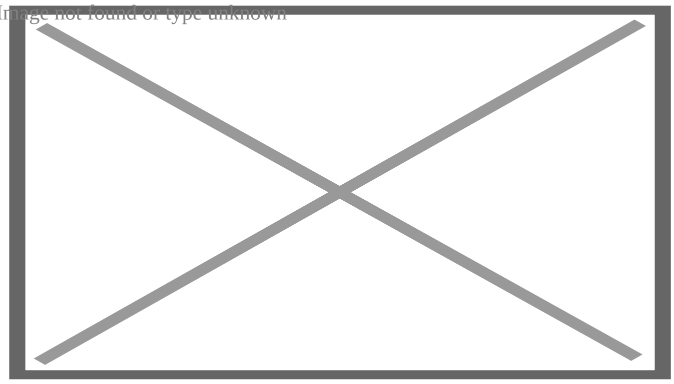

Recent results

In the third quarter, Restaurant Brands experienced system-wide sales growth of 2.8% in Tim Hortons, 7.8% in Burger King, and 7.9% in Popeyes. This resulted in system-wide sales of US$1,793.4 million for Tim Hortons, US$5,544.4 million for Burger King, and US$956.4 million for Popeyes, respectively.

For a fair comparison, using the previous accounting standards, the company reported adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) of US$575.7 million, which was an increase of almost 1.9% year over year. And its adjusted diluted earnings per share (EPS) increased 10.3% to US$0.64 per share.

Using the new standards, Restaurant Brands reported adjusted EBITDA of US$571.4 million and diluted EPS of US$0.63 for the quarter.

Using the previous standards, in the first nine months of the year, Restaurant Brands reported diluted EPS of US$1.81, which was a growth of 91%. Using the new standards, the diluted EPS was US$1.78, and the payout ratio was 76%.

Dividend

Restaurant Brands's dividend is five times what it was in 2015. Its quarterly dividend of US$0.45 per share has more than doubled in a year. Going forward, investors should expect the dividend growth to dampen, but it should still grow at a respectable rate of about 10%.

Investor takeaway

Restaurant Brands trades at about 21.6 times earnings, while it's estimated to grow its EPS by about 12-13% per year for the next three to five years.

The analyst consensus from **Thomson Reuters** has a 12-month target of US$70.40 per share on the stock, which represents there's nearly 28% upside potential in the near term.

Moreover, the stock offers a safe yield of 3.3%, and its dividend should continue to grow at a good pace. So, the stock is decently attractive today for accumulation.

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kayng