Can Burger King Save Restaurant Brands International Inc. (TSX:QSR) Stock?

Description

The CNN Business headline "How Burger King Fell Behind" says it all.

Restaurant Brands International (TSX:QSR)(NYSE:QSR) is in the early stages of revamping its Burger King locations in a frantic effort to revive sales at its most significant restaurant concept.

I'm not a fan of Restaurant Brands stock. Never have been and probably never will be, although I did say in August that I didn't think it would slide into the $60s — and then it did in late October.

Burger King was due for an upgrade and cleanup long ago; merely another of the many reasons I believe investors ought to steer clear of its stock.

Burger King is playing prevent defence

The few Burger King locations that I've been to are hideously messy, gross, and outdated. The "Burger King of Tomorrow" only gets the company back to being somewhat competitive with the likes of **McDonald's**.

McDonald's is good at getting franchisees to open their wallets for updates and changes, because it's got a track record of delivering on new concepts and ideas. Restaurant Brands — not so much.

"New store prototypes, remodels … those things are expensive," Sam Oches, editorial director for Food News Media at QSR magazine, told CNN. "When you become this enormous multi-brand holding company … [it's] hard to focus on details."

Indeed, it is.

Burger's King's latest refresh is going to take time to complete. In the past three quarters of 2018, Burger King has seen its same-store sales go from 3.8% in the first quarter to 1.8% in Q2 2018 to 1% in the latest quarter.

I'm not suggesting that the moves made today won't revive Burger King sales in the future, but Restaurant Brands's weakness lies in getting traffic to its stores and increased spending from its regular customers.

“Regular trade is the bread and butter,” said Neil Saunders of GlobalData Retail recently. “The marketing and the seasonal occasions are much less important.”

Restaurant Brands is not going to be able to market and advertise its way out of Burger King’s latest slump. That’s especially true given McDonald’s is spending $6 billion on its most recent revamp.

The Burger King effect

Personally, I don’t see any of the moves by CEO Daniel Schwartz moving the needle against its competition.

While they had to be done, franchisees are going to be very upset if their capital investments don’t pay big dividends, quite possibly leading to poor franchisee morale — something that already exists at Tim Hortons although the company’s working on smoothing things over.

If that happens, you can kiss $70 goodbye.

Fool contributor David Jagielski recently commented that Restaurant Brands’s net earnings in the third quarter were higher as a result of a $58.2 million loss in Q3 2017 for the extinguishment of debt. Otherwise, net profits would have been lower year over year.

As for the company’s operating income, it increased by less than 1% year over year, which ought to be a big concern for anyone who is long QSR stock.

The bottom line on QSR stock

While I get the need for Burger King to modernize, I don’t see it being enough to send QSR stock on a run to $100, as some Fool contributors have suggested.

Until there’s noticeable improvement at Burger King, QSR is likely dead money.

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