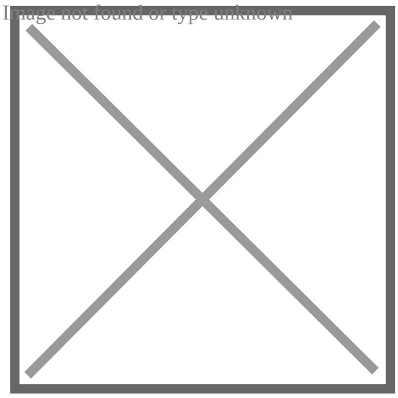


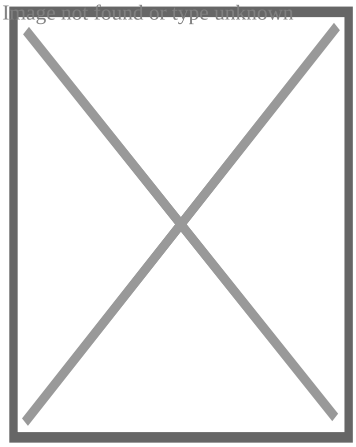
Let’s Be Thankful of the Gift From the Stock Market

Description

Some investors feel down when the share prices of their stock holdings fall. The Canadian stock market corrected about 11% from a high in about three months, while the U.S. stock market fell about 13% from a high in about two months. However, in the long run, the stock market goes up. So, the recent market corrections are gifts that are just in time for the holiday month.

Market corrections allow investors to buy shares of quality companies for higher long-term returns with lower risk. The idea is that as the stock prices of these companies fall, you can buy the shares at cheaper multiples, assuming the businesses remain fundamentally strong.

Restaurant Brands International (TSX:QSR)(NYSE:QSR) is a profitable company that generates stable cash flow, and its stock has sold off along with the correction. 3G Capital, a multi-billion-dollar Brazilian investment firm, owns about 43% of Restaurant Brands, leads the company, and has been shareholder friendly with generous dividend increases.



What Restaurant Brands does

Restaurant Brands is the third-largest quick-service restaurant chain in the world. Under its umbrella are the brands of Burger King, Tim Hortons, and Popeyes Louisiana Kitchen. It has more than US$30 billion in system-wide sales across more than 25,200 restaurants in over 100 countries and U.S. territories.

Almost 100% of Restaurant Brands's restaurants from each of its brands are franchised. Its franchised restaurants generate royalties, which are based on a percentage of their sales. Together, the royalties, property revenues from properties Restaurant Brands leases or subleases to its franchisees, and distribution sales to franchisees form a large part of Restaurant Brands's revenues.

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.

Is Restaurant Brands a cheap stock?

At roughly $71 per share, Restaurant Brands stock trades at a price-to-earnings ratio of about 20.6, while it's estimated to increase its earnings per share by roughly 12-13% per year on average over the next three to five years. So, the stock is trading at a reasonable PEG ratio of about 1.65.

Thomson Reuters analysts have a mean 12-month price target of US$70.20 per share on the stock, which converts to about CAD$91.30 per share based on a more conservative forex of US$1 to CAD$1.30. The target price indicates Restaurant brands is undervalued by about 22% on a forward basis and has near-term upside potential of about 28%. These estimates indicate Restaurant Brands trades at a modest discount. So, long-term accounts can consider buying some shares.

Dividend

Restaurant Brands is a profitable business with a recent net margin of 17.2%, and it generates lots of cash. As a result, in the past four years, its dividend increased about 34% per year on average. Currently, it offers a yield of about 3.4%. It's paying out less than 70% of earnings or cash flow, leaving about 30% to grow the business.

Investor takeaway

Restaurant Brands is a decent value today. However, if it falls to $65 or lower, it'll be an even better entry point. Long-term accounts can consider nibbling some shares today to start a position and add more should the stock fall lower.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
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