A “War Chest of Value” to Be Had With This Super-Cheap Growth Stock

Description

The managers at **Restaurant Brands International** (TSX:QSR)(NYSE:QSR), 3G Capital, are known for relentless cost cutting and their extremely shareholder-friendly nature. The company has paid a fat dividend to shareholders while keeping its foot on the growth pedal. Due to the capital-light royalty nature of Restaurant Brands’s model, the company can sustain impressive growth and support massive double-digit dividend hikes consistently over time.

While management has been excellent at growing through global expansion (Tim’s expansion into China and the Philippines has me a raging bull on Restaurant Brands stock), performance at existing stores has been sub-par, especially over the past two years.

It definitely seems like 3G Capital needs some guidance, potentially from activist shareholder Bill Ackman, as I’ve brought up in a prior piece. At Tim’s, pricing at domestic stores has been a huge miss, and the innovation roll-outs haven’t been very smooth. Customers have noticed, and that’s not doing the iconic Canadian brand any favours.

It all boils down to poor decisions being made lately. Fortunately, I suspect it’ll just take a few smart moves before Tim Hortons (and Burger King) can be great again. 3G Capital should take a page out of the book of **McDonald’s** CEO Steve Easterbrook. If they do, Restaurant Brands could very easily double in price over the next two years.

Given the Restaurant Brands’s unique business model, Restaurant Brands doesn’t need to spend money hand over fist to unlock top- and bottom-line growth. And if ever the company spots an opportunity in the fast-food world, it can easily finance an acquisition through cash and debt with folks like Warren Buffett who are undoubtedly on management’s speed dial. “Hey, Uncle Warren. Could you spare a couple of billion dollars in return for some preferred shares?”

From an extremely long-term perspective (10, 20, 30 years out), Restaurant Brands is capable of raising its growth ceiling, if the world becomes saturated with its current portfolio of brands. All Restaurant Brands has to do is hire some better people to make smart decisions at the chain level, and I suspect Restaurant Brands stock could command a much higher multiple than where it’s trading today.

In any case, I see tremendous upside potential for Restaurant Brands, especially if 3G Capital is willing to step away from its cost-cutting culture and instead focused on investing more alongside its franchisees to improve the experiential factor.

Foolish takeaway on Restaurant Brands

At 14.8 times next year's expected earnings, Restaurant Brands is a steal. The company may not be operating at a high level, but it's sitting on a war chest of value through its unbelievable brands. These brands may be intangible, but they serve as a massive moat, and under the right guidance, there's tremendous gain to be had for those patient enough to stick with the name through its ups and downs.

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