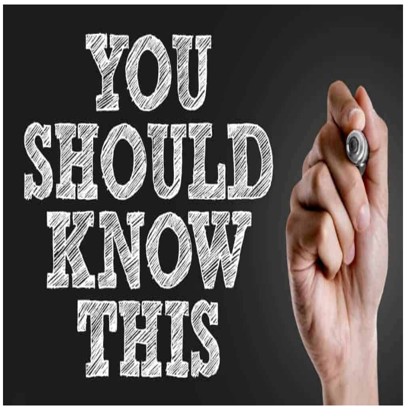

Do You Buy Restaurant Brands International Inc (TSX:QSR) on the Breakout or Do You Wait for the Dip?

Description

Shares in **Restaurant Brands International Inc** (TSX:QSR) shot up 9.6% last month on when the international leading fast food operator announced it was raising it would be raising its quarterly dividend payout by 11% to $0.50 per share.

With management having announced its plans to target the company's annual distribution at $2.00 per share, the QSR shares now trade at a 3.2% forward dividend yield against Tuesday's closing price of $62.56.

But with the shares up now 19.62% since the beginning of the year, is it worth buying QSR stock following the latest surge, or is this a stock that investors are better off waiting to jump in on the next (inevitable) dip?

From this author's own perspective, I'd be inclined to hold off on the temptation to chase QSR stock and in this post I'll do my best to explain my the rationale behind that decision.

Restaurant Brands operates in a mature industry

While it's true that management in charge of running the business have done an exceptional job of growing the top line in recent year, fueled by the acquisition of the Popeyes' chain in 2017 and continued expansion of its fast food store count, at the same time this business model is a far cry from the type of revolutionary or disruptive technology that you'd be more likely to see in some AI stocks.

In some cases the prospects being offered by an exciting new investment idea are so awesome that the risk of missing out on that ideas are so great that it justifies plunging all in while the getting is good.

But ask yourself if that sounds like the case of QSR, a fast food chain operator.

For me personally, I don't see it that way.

Shares aren’t exactly cheap either

Shares in Restaurant Brands were trading at a price-to-earnings ratio just shy of 26 times heading into the week’s trading.

While that’s not a ridiculous valuation and while there’s also a lot more to successful investing than just studying price-to-earnings ratios, it does suggest that the QSR shares aren’t exactly cheap either (and particularly following the latest surge in value).

This is a dividend play

The fact that the QSR shares shot up so much on the latest dividend hike announcement screams that this is a stock that will continue to be largely driven by activity taking place with respect to the QSR dividend.

That the board of directors was confident enough to raise the firm’s annual payout by double-digit percentages should certainly suggest some confidence on the part of the company’s management, but investors will also want to keep in mind that the forward dividend estimate implies that QSR will be paying out at least more than 50% of its earnings going forward.

While that still leaves room for ample growth, it does seem to support the thesis above that this is a mature rather than fast-growing company and thus on a relative basis at least, investors will be less, rather than more, likely to be punished for their patience with this stock.

CATEGORY

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2. Investing

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