Restaurant Brands International Inc. (TSX:QSR): Should You Buy the Post-Earnings Dip?

Description

Restaurant Brands (TSX:QSR)(NYSE:QSR) released its first-quarter results for fiscal 2019 on April 29. Shares dropped 1.51% after the report hit investors. The stock is still up 23.5% in 2019 so far.

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In late March I discussed RBI's valuation and warned investors to watch out in a hot market. The stock proved to have more room to run into April and hit an all-time high of $90.94 in mid-April trading. RBI had a frustrating 2018 as it wrestled with an internal crisis involving Tim Hortons' franchisees, but it has rebounded nicely in 2019. The stock has been a stellar source of growth and income for shareholders since its debut on the TSX.

Burger King and Popeyes' brands were again the strong point for RBI in the first quarter. The brands reported system-wide sales growth of 8.2% and 6.8%, respectively, in Q1 2019. Tim Hortons, on the other hand, posted system-wide sales growth of 0.5%, which was down from 2.1% growth in the prior year. Comparable sales at Tim Hortons fell 0.6% compared to a 0.3% reduction in Q1 2018.

CEO Daniel Schwartz blamed cold weather and an outdated roll-up-the-rim-to-win promotion for the slow sales at Tim Hortons. In response, the company has vowed to revamp the promotion in 2019. This latest performance puts added pressure on the Tim Hortons' brand after RBI committed to its Winning Together Plan. The performance gap between Canada's largest quick-service restaurant chain and its two other brand partners is widening.

The lackluster performer at Tim Hortons dragged down overall results at RBI. Total revenue increased to $1.266 billion compared to $1.254 billion in the prior year. Adjusted EBITDA increased marginally to $500 million over $498 million in Q1 2018, with Tim Hortons' adjusted EBITDA falling from $245 million to $237 million. RBI's adjusted net income fell to $255 million or $0.55 per share compared to $314 million or $0.66 per share in the same period last year.

RBI stock now sits at the high end of its 52-week range after a lukewarm earnings report. Tim Hortons' accounts for almost 60% of RBI's total sales, and its stagnant growth is a concern going forward. Help may be on the way as RBI seeks to expand the brand into China. The company has already opened three new Tim Hortons' stores in China and is planning up to 1,500 store openings over the next decade. The U.S. coffee giant **Starbucks** has experienced huge success with its Chinese expansion as U.S. sales have slowed considerably.

How should investors react to the earnings report? RBI stock suffered a small dip, but the stock remains a strong pick with its wide economic moat and attractive blend of growth and income. The board of directors announced a quarterly dividend of $0.50 per share in Q1 2019, which represents a 2.7% yield.

Investors will be paying a premium for RBI stock if they pull the trigger today. RBI is a solid long-term target, but value investors should still look for more favourable entry points this spring.

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