Is Restaurant Brands (TSX:QSR) Stock Still a Buy After a Powerful Rally?

Description

The shares of North America's biggest restaurant chains have had a great run this year. They benefited from robust consumer spending at a time when the economy was doing great and unemployment remained at a historic low.

Restaurant Brands International (TSX:QSR)(NYSE:QSR), which owns Tim Hortons and Burger King, has been one of the top performers in this category, producing returns that served growth-hungry investors well.

So far this year, its stock has surged 40%, as the company showed progress in turning around Tim Hortons in Canada and continued to offer items that customers liked. In the second-quarter earnings report last month, the company said that it added plant-based protein menu items and options like digital kiosks, delivery, and apps to attract customers.

"Our vision for innovation with Tim Hortons, in particular in Canada, has been to listen to our guests and bring what we're calling on-trend innovation," said Tim Hortons president Alex Macedo.

Overall, Restaurant Brands's system-wide sales rose 7.9% in the quarter, helped by the 1,245 more restaurants it had in the second quarter than the same period last year.

The company, which reports in U.S. dollars, said total revenue for the quarter rose to $1.4 billion, up from $1.343 billion last year. Company-wide adjusted net income expanded to $331 million, or $0.71 per share, compared with earnings of $313 million, or $0.66 cents per share, last year, and ahead of analyst expectations of $296 million, or $0.65 a share.

Declining number of customers

While the company's growth continues, one major worry that's keeping some analysts' skeptical about the future is the declining visits by customers to fast-food chains in North America.

According to a recent report in *Bloomberg*, restaurant operators have been able to show improved sales because of higher prices and not by bringing in new customers.

“Traffic has been flat or falling across the industry as U.S. consumers cut back on eating out in favour of dining on the couch. Unless restaurants can reverse this trend, the recent gains could be fleeting,” the report said.

No doubt, Restaurant Brands will find it hard to buck this trend if it’s hitting the industry. But what makes the operator a safe bet for long-term investors is its aggressive growth plans internationally.

Restaurant Brands told investors recently that it plans to grow its three fast-food chains to more than 40,000 locations around the world over the next eight to 10 years.

“Forty thousand restaurants worldwide will put us amongst the largest restaurant companies in the world,” said CEO Jose Cil at the company’s first Investor Day in New York in May.

With this kind of global explosive growth in the works, the company will be well positioned to make up for the slowdown in its domestic markets. That being said, investors should be ready for some pullback in the company’s share price after such a powerful rally this year. Over the long run, however, QSR stock remains a good bet in the fast-food space.

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