Turn Your $6,000 TFSA Contribution Into a $1,200 Annual Dividend Stream for Life With This Stock

Description

My regular readers know that I rarely write about stocks in the food and beverage space because consumer tastes can be fickle, but I started following **Restaurant Brands International** (TSX:QSR) last quarter. Despite my initial negative bias, I now believe the stock is going to continue to move up substantially as the company makes progress against its strategic goals.

Many investors don't know that Restaurant Brands International is actually the corporate parent to three phenomenal global food franchises: Burger King, Tim Hortons, and Popeyes. Between these three brands, the company effectively provides breakfast to dinner food options for its customers across the globe.

The stock price has been stuck around the $86 to $88 zone since April, which means smart investors have an opportunity to take a hard look at initiating a position while the stock price is taking a slight breather before its next leg up.

So, let's get into the analysis with an interesting side note about the ticker symbol, which isn't intuitive, but QSR actually stands for "quick-service restaurants." This is an important little tidbit because it serves as a reminder to everyone that one of the key strategic drivers of growth for this company is speed. Specifically, the speed of ordering and the speed from order to fulfillment.

Digital innovation is seen as a big strategic pillar that will enable speed and Restaurant Brands International is investing heavily in point of sale technology as well as digital menu boards and app-based loyalty programs to create a much faster experience for customers. Digital investments also allow the company to understand and track customer preferences as well as other data that can be used to optimize its offerings.

Strong financials lead to growing dividends

So, the big question is: how do we turn a $6,000 TFSA contribution into a $1,200 annual dividend stream for life? The answer is simple and lies in the company's financials and distribution philosophy. First, in order to achieve sustainable long-term dividend growth, two things need to happen. The company needs to be cash flow positive and it needs to have a clear and compelling value creation model, especially in a competitive industry like food and beverage.

The company has one of the most impressive adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) growth rates I have ever seen in this industry. It went from US$0.51 of adjusted EBITDA per share in 2011 to US$2.63 in 2018. So, in seven short years, the company created a mind-boggling 5 times growth in this important earnings metric.

The company also ended 2018 with about US$2 billion in free cash flow, with a free cash flow conversion of 87% of adjusted EBITDA. This means that the company was very efficient at creating pure and real cash from accounting-based earnings, which points to an efficient operating platform.

But it gets even better. The dividend per share in 2018 was US$2, which was the culmination of several years of double-digit growth. So, let's take a future 10% dividend growth rate, which is not a stretch, given its past history of aggressive dividend growth and a phenomenal cash flow positive business model.

If we take the $6,000 TFSA contribution, that equates to 68 shares at the current $88 share price. Further, if we then take the US$2 dividend and grow it by 10% per year for the next 20 years, we get an annual dividend of US$13.5 per share in 20 years or $17.5 in Canadian dollars, assuming a currency conversion of 1.30.

We still have the original 68 shares that we bought all those years ago and now at $17.5 dividend per share, those shares will yield a little under $1,200 per year. The key is to let the power of compounding do the work without panic selling the stock if the company has a poor quarter every now and then, as it is bound to do.

Foolish bottom line

Restaurant Brands International has solid plans to keep growing each of its three food franchises globally for the next few decades. At $88 a share and a price-to-earnings ratio of 23, the company isn't exactly cheap, but then again, industry leaders rarely are because you are paying for quality.

I would urge smart investors to take a close look and start investing around the $85 range to lock down a very healthy cash flow in retirement.

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