2020 Recession: This 1 Stock Is the Ultimate Value Play!

Description

Restaurant Brands (TSX:QSR)(NYSE:QSR) is engaged in the franchising and operating of quick-service restaurants that serve premium coffee and other beverage and food products under the Tim Hortons brand, fast-food hamburgers under the Burger King Brand, and chicken under the Popeyes brand.

As of September 30, 2019, the company franchised or owned 4,887 Tim Horton restaurants, 18,232 Burger King restaurants, and 3,192 Popeyes restaurants. Almost 100% of restaurants are franchised.

The company reported a market capitalization of $41 billion with a 52-week low of $68.34 and a 52-week high of $105.93.

Intrinsic price

Based on my calculations using a discounted cash flow (DCF) valuation model, I determined that Restaurant Brands has an intrinsic value of $78.18 per share. Assuming less-than-average industry growth, the intrinsic value would be $72.04 per share and higher-than-average industry growth would result in an intrinsic value of $85.22 per share.

At the current share price of $87.84, I believe Restaurant Brands is slightly overvalued. Investors looking to add a food services company to their TFSA or RRSP should add Restaurant Brands to their watch list. I would suggest following the stock into 2020, as a bear market would allow investors to buy shares of Restaurant Brands at a discount.

Restaurant Brands has an enterprise value of $35.4 billion, which represents the theoretical price a buyer would pay for all of Restaurant Brands's outstanding shares plus its debt. One of the good things about Restaurant Brands is its acceptable leverage with debt at 31.6% of total capital versus equity at 68.4% of total capital.

Financial highlights

For the nine months ended September 30, 2019, the company reported a strong balance sheet with US$762 million in retained earnings (up from US$674 million in 2018). This good news for investors, as it suggests the company has reinvested surpluses in itself, which helps to grow the business.

The company also reports cash and equivalents of US$1.7 billion with US$776 million in current portion of long-term debt. This means the company has enough cash on hand to cover its short-term liabilities which is a good sign. Restaurant Brands also has a US$1 billion revolving credit facility, of which no amounts are outstanding. This is a very good sign for investors, as the company has access to an additional US$1 billion for business growth.

Overall revenues are up materially year over year from US$3.972 billion in 2018 to US$4.124 billion in 2019 (+4%), which has resulted in operating income of US$1.5 billion. Pre-tax income of US$1.086 billion, which is up from US$996 million during this period in 2018.

The company issued US$750 million in long-term debt during this period in 2019 while paying down US$290 million in long-term debt (up from a US$66 million payment in 2018). The company is a dividend-paying entity with a current dividend yield of 2.97%.

Foolish takeaway

Investors looking to buy shares of a food services company should consider buying shares of Restaurant Brands. The company reports a positive retained earnings coupled with a strong cash balance and an unutilized US$1 billion revolving credit facility.

Based on a discounted cash flow model that I used, I calculated Restaurant Brands's intrinsic value to be $78.18, which represents a slight decrease to the $87.84 it is currently trading at. With a bearish 2020 on its way, investors should wait for an ideal time to purchase shares of Restaurant Brands to maximize gains.

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