This Dividend Growth King Is on Sale — But Not for Long

Description

With a sluggish Canadian economy that's likely to continue drastically lagging the economy of our neighbours to the south, it's worthwhile to look to Canadian businesses that possess meaningful U.S. or international exposure, so you don't have to settle for the sub-par returns of the **TSX Index**.

Tightening credit conditions in Canada and the extreme indebtedness of Canadian consumers do not bode well for many Canadian consumer discretionaries in the early 2020s.

And while valuations of many of the consumer discretionary stocks have already been slashed to account for the modest year-ahead outlook for consumer spending, I do see several unfairly discounted Canadian businesses that have growing international exposure that could more than offset any domestic weakness over the medium term.

Consider **Restaurant Brands International** (TSX:QSR)(NYSE:QSR), the fast-food juggernaut behind beloved Canadian quick-serve restaurant chain Tim Hortons, the internationally-recognized Burger King, and the fried chicken kingpin that reeks of growth in Popeyes' Louisiana Kitchen.

Super-sized dividend? Yes, please!

The stock sports an absurdly high 3.3% dividend yield at the time of writing thanks in part to a recent 22% correction in shares (amidst a broader fast-food sell-off) and a very generous capital return program that's made possible because of the firm's capital-light growth model.

Restaurant Brands has been known to serve up whopper dividend hikes, and with more double-digit percentage dividend hikes in the cards moving forward, I'd encourage income investors to lock-in the dividend yield today should it revert toward mean levels below 3% in the event of a rebound in shares.

What's most fascinating about Restaurant Brands is that the company can fire on all growth cylinders (investing in same-store sales growth initiatives while pursuing ambitious expansion into new markets) without breaking the bank by pouring substantial sums of cash to sustain its growth rate.

This allows the company to maintain a high degree of financial flexibility (cash flows are highly predictable), even if there's a considerable amount of debt on the balance sheet. At these depths, I just don't see the financial flexibility fully reflected in the valuation.

Such a high degree of financial flexibility allows Restaurant Brands the freedom to pursue opportunities (like undervalued acquisition opportunities) as they come to be while continuing to spoil shareholders through frequent and generous dividend hikes.

While Restaurant Brands does have the capacity to continue hiking its dividend at a fast and furious rate, with shares as undervalued as they are today, I wouldn't be surprised to see the firm pursue an aggressive share repurchase program alongside a modest, but still impressive dividend hikes.

Still some company-specific issues, but they're mostly overblown

There's no question that Tim Hortons is a sore spot for Restaurant Brands. It just hasn't been living up to its full potential, and with Tim's President Alex Macedo headed for the exit this March, most of the pessimism surrounding Tim's has exacerbated the recent decline and is more than baked into the stock at this juncture.

A pessimist would see Tim's as a chain with permanently-tarnished brand equity destined for continued weakness amidst Canada's economic slowdown.

An optimist would see Tim's and the potential restructuring of upper management as an opportunity for the chain to turn things around and make a new name for itself as it looks to diversify away from the Canadian market.

As it stands today, Tim's could face further weakness amidst the belt-tightening of Canadians, but with a window of opportunity to be had in China and a booming new market with a newfound appetite for coffee, it's likely that Tim's could pole vault past a bar that's been lowered to the floor.

With Burger King and Popeyes looking to make noise internationally, Restaurant Brands is an international growth heavyweight that has no business being in bear market territory given its capital-light growth profile and overly generous capital return program that could soon include aggressive share buybacks.

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